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MARCH/APRIL 2000

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Putin's Problems

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Bloodbath in Chechnya *Rajan Menon and Graham Fuller*

Weakening Central Rule *Sam Nunn and Adam Stulberg*

PAKISTAN'S CHRONIC COUPS
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MARCH/APRIL 2000
VOLUME 79, NUMBER 2

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Putin's Plutocrat Problem *Lee S. Wolosky* 18
Russia's popular new president is better positioned than his predecessor was to enact needed reforms. But all of Vladimir Putin's efforts will come to nought unless he can do what Boris Yeltsin never did: rein in Russia's plutocrats. These ruthless oligarchs have fleeced Russia of staggering sums, seizing control of its oil industry—one of the world's largest—in the process. Through payoffs and intimidation, they have insinuated themselves into electoral politics and virtually immunized themselves from prosecution. None of Russia's problems—neither its crippled economy, nor its emaciated infrastructure, nor its wheezing democracy—will be solved while the robber barons retain their power. America cannot afford to sit on the sidelines any longer.

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eurozone do not put their fiscal houses in order. Generational accounting, a careful analysis of long-term trends, paints a bleak picture: unsustainable spending will bury future generations under mountains of debt. Most governments using the euro must either endure deep budget cuts, swallow sharp tax hikes, or be forced out of the eurozone.

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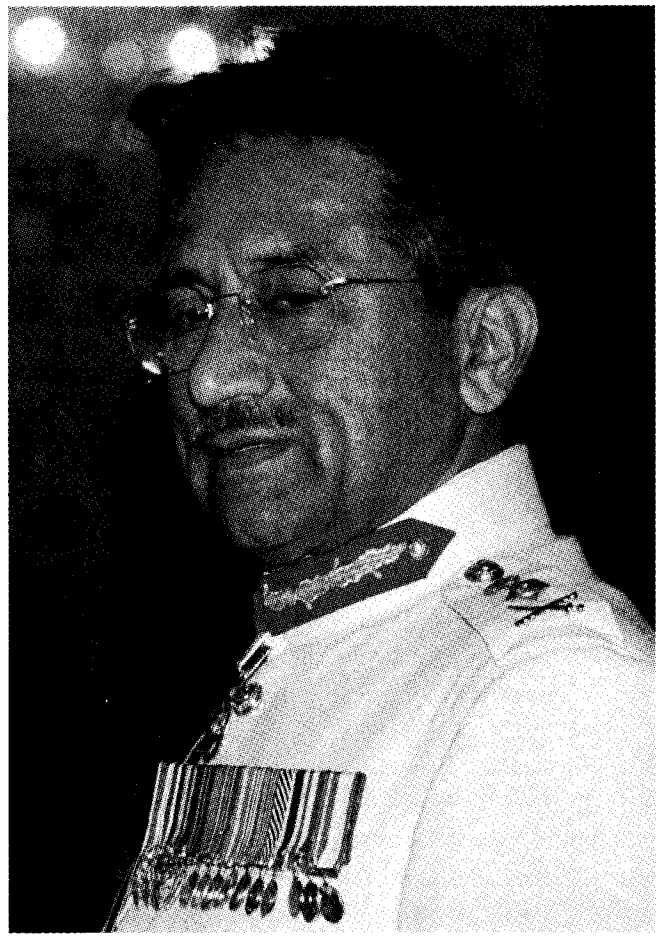

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General Pervez Musharraf, Islamabad

Despite his solemn promises, Musharraf—like the generals before him—is unlikely to solve Pakistan's chronic malaise.

Pakistan's Never-Ending Story *Sumit Ganguly* 2

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Pakistan's Never-Ending Story

Why the October Coup Was No Surprise

Sumit Ganguly

What ails Pakistan? Why, throughout its 52 years, has it experienced nearly constant political instability? Pakistan has already suffered four military coups, the most recent of which startled the world last October. The country suffers from endemic social, political, and economic ills, all of which its various civilian and military regimes have proven incapable of handling.

Pakistan's problems appear especially stark next to India, its neighbor and long-time adversary. Of course, India can hardly brag about its record in avoiding ethnic violence, fueling economic development, or promoting social justice. But unlike Pakistan, India's military remains under firm civilian control; state and national elections are basically free and fair; the judiciary staunchly protects its independence; and the Indian press remains unhindered and, at times, even feisty. India has hewed toward democracy, while Pakistan is ever veering toward authoritarian rule. What led Pakistan into this mess, and so soon after its founding? And how will it ever get out?

Pakistan's woes matter not just to the Indian subcontinent but to America as well. Pakistan is a nuclear state with crushing economic problems, a burgeoning population, and few effective civilian institutions. It abuts two regions of the world, the Persian Gulf and Central Asia, that are flash points in America's battles over oil, terrorism, and drugs. Pakistan wields major influence in the growing Islamist movement in Central Asia and the surrounding regions. If Pakistan collapsed, refugees would flood into India and Iran, and Afghanistan's stability would be further undermined. Worse yet, any further weakening of the state could leave Pakistan's nuclear arsenal vulnerable to terrorists.

THE FRAMERS' INTENT

Most of Pakistan's current travails can easily be traced to the nationalist movement that forged the state in 1947. The All-India Muslim League, the major Muslim party in colonial India, led the transition to the newly formed Pakistan under Mohammed Ali Jinnah, a secular, charismatic lawyer

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and politician. The League was an elitist organization from the start and remained so after independence. Although the party claimed to represent the interests of all Muslims in the British Indian empire, its upper echelons were composed mostly of Muslim gentry from the northern Indian heartland.

Unlike the leaders of the Indian National Congress, Jinnah and his colleagues made no effort to democratize their party; doing so would have undermined the League's main supporters, wealthy landowners. As a consequence, the League arrived in the newly independent state ill-equipped to form any type of representative government. It had neither a commitment to democracy nor a well-defined system for addressing the nation's diverse interests.

Pakistan did not even draft a constitution until 1954—seven years after independence. This constitution had to be set aside after powerful individuals with a contempt for democratic processes and differing views on the role of Islam held up its adoption. Meanwhile, West Pakistan (which included three-fifths of the colonial state of Punjab) and East Pakistan (which included two-thirds of pre-independence Bengal) fought over how political power should be delegated. Only after a second constituent assembly convened in 1956 did Pakistan finally adopt a national constitution. Yet the weakness of this and succeeding constitutions and the constant disputes over political power contributed to the bloody divorce of the country's eastern and western halves in 1971.

A DANGEROUS LIAISON

The Muslim League's incompetence in governing Pakistan allowed the civilian bureaucracy to usurp significant powers. With Pakistan's independence came numerous problems, including disputes over the division of assets with India, the settlement of Muslim refugees, and the maintenance of public order. In addressing these problems, the country's leaders relied increasingly on the civilian bureaucracy. Yet this bureaucracy—highly elitist and composed mostly of colonial-era civil servants—was contemptuous of the politicians and had little use for parliamentary democracy. Furthermore, unlike their Muslim counterparts in India, who could not afford to alienate the ruling Congress Party, Pakistan's bureaucrats knew that the Muslim League lacked nationwide support—especially after Jinnah's death in 1948.

Faced with sectarian, economic, and political challenges, the bureaucracy saw itself as the ultimate arbiter of Pakistan's fate and soon linked itself to the army. This military-bureaucratic collaboration proved lethal to the development of other institutions. The legislative branch remained sapless, the judiciary withered, and the press stultified. Successive prime ministers depended on the support of the army to maintain public order.

Amid this political chaos, General Mohammad Ayub Khan launched Pakistan's first military coup in October 1958. Although Ayub initially achieved a degree of stability, he did little to strengthen democratic institutions or expand political participation. Even the discrediting of his regime in the wake of Pakistan's 1965 war with India did not bring democracy to the state. By this time, democratic institutions had been thoroughly constricted. The antidemocratic proclivities of the bureaucracy became entrenched, economic policy continued to benefit

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only a small coterie of Pakistan's elite families, and judicial independence remained weak. And, as was proven again last October, the military remained the most powerful institution in Pakistan.

THE INTELLIGENCE QUOTIENT

When the Inter-Services Intelligence agency (ISI), Pakistan's principal counter-intelligence body, entered the political scene, it bolstered the position of the military within the Pakistani state apparatus. The ISI's power and resources grew dramatically under the military dictatorship of General Mohammad Zia ul-Haq, who engineered Pakistan's third military coup in 1977. Zia used the ISI to support favored mujahideen groups during the Afghan war and also as a domestic surveillance tool against potential political rivals.

Under Zia, the ISI operated with little regard for legislative or judicial scrutiny. This lack of accountability remained even after Zia was succeeded by the putatively democratic regime of Benazir Bhutto. The ISI has tinkered with Pakistan's electoral process, as when it supported now-deposed Prime Minister Nawaz Sharif's successful 1990 bid for office by undermining his opponents. Elected regimes have failed to take control of the ISI or extend the writ of habeas corpus to individuals who run afoul of it.

Meanwhile, the intelligence agency remains deeply involved with the Taliban in Afghanistan and supports some of the more vicious Islamist groups, such as the Harkat ul-Mujahideen, in their terrorist activities in Kashmir. The ISI acts as an independent organization with its own interests and, to the country's detriment, its own foreign policy. It is dismissive of governing regimes, especially civilian ones. Unfortunately, the ISI's work is nudging Pakistan toward the West's list of terrorist states.

REBUILDING THE STATE

The tasks facing General Pervez Musharraf, leader of the October coup and now self-declared "chief executive" of the country, are enormous. Despite his solemn promises and patriotic rhetoric, it is unlikely that Musharraf will be able to ease Pakistan's deep-rooted malaise in the short period of time that the West will tolerate his unelected rule. Already, the British Commonwealth has voted to keep Pakistan out of its proceedings until democracy takes hold. The longer Musharraf stays in power, the less likely it will be for civilian institutions to make a comeback. The record of military regimes in this hapless country offers little comfort.

On December 15, 1999, after about two months in office, Musharraf made a key policy address that described Pakistan's troubled economy and the steps his administration had taken to tackle it. His speech, surprisingly, also contained important sops for disadvantaged Pakistanis. For instance, he increased the amount of compensation given to relatives of deceased government employees, made government land available to landless peasants, and deferred electricity payments from agricultural users. His agenda was nothing short of ambitious. But in a marked departure from his three military predecessors, he did not discuss the possibility of returning Pakistan to democracy. He promised to improve existing government institutions and create new, more efficient ones—although most plans were limited to revenue collection.

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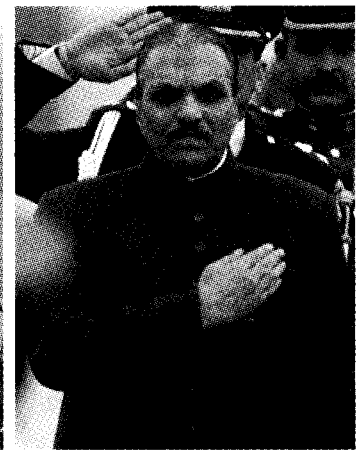

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The generals: Ayub Khan, Yahya Khan, and Zia ul-Haq

Saving Pakistan will require more than the standard palliative measures that previous civilian and military regimes have taken. Musharraf alone—despite his widespread support from the military and much of the public—cannot bring about the necessary structural transformation. Any significant reform will require widespread internal efforts and international pressure.

Economics is foremost among the country's problems. Economic growth has faltered and is now incapable of keeping pace with Pakistan's annual population growth rate of nearly 3 percent. By the late 1990s, annual GDP growth had plummeted to about 3 percent, from about 6 percent in the 1980s. Heavy taxation and high tariffs have choked industrial productivity, which lags at 1.8 percent per year. State-owned banks, which were encouraged by Sharif to aid political loyalists in spite of their questionable collateral, are sandbagged with defaulted loans totaling nearly $3.5 billion. Foreign investment had dropped to less than $1 billion by 1996–97. And following the May 1998 nuclear tests, economic sanctions imposed by the United States and other nations reduced even this paltry amount. More than 50 percent of Pakistan's budget is presently earmarked for debt servicing.

Musharraf has focused his attention, so far, on pursuing defaulters on loans issued by government-owned banks. He has also created the National Accountability Bureau to pursue tax evaders. But the general has skirted the politically contentious issue of taxing the agricultural sector, which contributes some 25 percent of the country's GDP and employs some 60 percent of the population. Because of the enormous political power held by Pakistan's feudal landowners, agricultural income remains mostly untaxed. As a professional soldier dependent on a technocratic cabinet—and unbeholden to rural electoral support—Musharraf is the best candidate to finally confront the outdated status of Pakistan's landed gentry.

Of course, reforms should not be limited to the economy. Musharraf must begin to build institutions of good governance by establishing judicial independence, promoting press freedom, and improving the government's health care and education

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programs. He must also remove several layers of institutional rot. One important starting point is the ISI, which has dictated the fortunes of Pakistan's civilian governments. Musharraf must rein in its activities and limit its domestic mandate to counterintelligence. To ensure the subordination of the ISI, Musharraf will have to sever Pakistan's ties to Islamist movements, partly by curbing their fundraising, organizing, and other public activities.

STUCK ON KASHMIR

Not only should Musharraf break ties with external Islamist movements, he must also redefine his treatment of religious zealots living in Pakistan. The current policy, which seeks to curb the Islamists' powers at home while supporting their activities in Kashmir, is untenable. Any encouragement of these groups simply contributes to their growing power—inside and outside the country. Islamist organizations such as the Lashkar-e-Toiba have grown extraordinarily powerful within Pakistan. Relying on them to pursue Islamabad's security goals is an inherently dangerous strategy. Once given a taste of power, most Islamist groups are unlikely to be contained within Pakistan's rickety political order. Sectarian cleavages already exist within the Pakistani military. Many midlevel officers raised under Zia share the religious zeal of the fundamentalists. Encouraging religious fanaticism of any sort could fragment the army.

Containing the power of the Lashkar-e-Toiba and similar groups will require the regime to adopt a radically new policy toward the festering Kashmir issue. Since its independence Pakistan has sought to wrest Kashmir from India, at considerable human and material cost. But it is no closer to realizing this goal than it was in the late 1940s. Musharraf, the architect of Pakistan's military disaster in Kargil last summer, needs to drop this futile quest.

More than other factors, the crushing burden of military spending demands that Musharraf resolve the Kashmir issue. According to economist Omar Noman, 80 percent of Pakistan's total debt was accumulated under military regimes; currently, the military budget consumes roughly 40 percent of government expenditures. Unless Musharraf improves relations with India—and this means resolving Kashmir—the two countries will remain locked in a defense-spending race. India's substantially larger and more diversified industrial base, its higher rates of growth, and its manifestly greater military strength make such a competition suicidal for Pakistan.

Engaging India could also help Pakistan address its other problems. Even limited improvements in bilateral relations, especially regarding Kashmir, would decrease external economic pressures, as the West is likely to reward Pakistan's cooperation by easing sanctions. Improvements in Indo-Pakistani relations—even small ones—might dampen the distrust and hostility that have driven the development of full-fledged nuclear arsenals.

HELP ME HELP YOU

The United States can play a useful role in promoting these goals. But mere public hectoring may actually postpone attempts to solve the underlying sources of instability. The United States, other major powers, and India have no choice but to work with Musharraf's regime, for it is in the interest of all states concerned to prevent Pakistan's deterioration. The necessity of working with this regime,

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however, should not translate into an absolution of the military for bringing Pakistan to its current sorry state. Outside powers must use every available diplomatic, economic, and normative lever to push for structural reforms that will weaken the military's domestic power and promote long-term economic growth. Piecemeal efforts, such as granting bilateral economic assistance, providing multilateral loans, or resuming military-to-military ties, will offer little long-term help to the anemic state. Before long, a new crisis will envelop the country; by then, Pakistan might be too far gone for outside actors to help.

A new policy should seek Pakistan's structural transformation, both political and economic. It should focus on reducing the power, prerogatives, and pocketbook of the army; creating and strengthening internal regulatory bodies responsible for revenue collection and enforcement; fundamentally realigning the government's budgetary priorities; improving the quality of basic public services; developing a viable, politically neutral police force and an independent judiciary; upholding the freedom of the press; and guaranteeing minority rights. A successful strategy will require the significant coordination of American policy with that of key allies such as Britain and Japan. The United States must also elicit India's assistance and cooperation. This amounts to an extensive and ambitious agenda. If even a fraction of these reforms is enacted, however, Pakistan may be able to find a cure for its perennial ills.

None of these efforts will be cost-free or easily accomplished. But unless General Musharraf is prodded and persuaded to undertake these measures, Pakistan's ability to function as a viable state will remain in jeopardy—a prospect too dire to risk.

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Come Together

Europe's Unexpected New Architecture

Elizabeth Pond

It must be a new era when the secretary-general of NATO goes out of his way to praise a European Union summit—and when the EU's rhetoric is tougher than NATO's on Russian brutality in Chechnya. Welcome to 21st-century Europe, in which NATO and the EU routinely meddle in each other's affairs, see themselves more and more as collaborators (and rivals) in joint business, and even fraternize in a manner utterly taboo during the Cold War. It is a Europe in which Lord Robertson, NATO's secretary-general, ostentatiously commended the EU's pledge at its Helsinki summit last December to build better European rapid-reaction forces to supplement America's troops in the region and where, for a few days at least, EU leaders talked about imposing sanctions on Russia for its conduct in Chechnya with a severity unmatched by either the United States or NATO.

Increasingly, the chaotic overlapping institutions of post–Cold War Europe are morphing together, led by the premier Western clubs, NATO and the EU. Amid the ongoing consolidation, some organizations—for instance, the obsolete Western European Union—are vanishing altogether. Some, like the Council of Europe and the Organization for Security and Cooperation in Europe, are spinning away from the center to focus on heartland Europe's relations with the east Slavs and others who have chosen not to follow the voluntary rules of the European club. And Europe's strongest institutions are finally beginning to define their own niches and refine their mutual interactions.

In short, the continent's long-prophesied post–Cold War "security architecture" is at last appearing—and it is not quite the brick-and-mortar of fixed institutions that analysts envisaged when the Berlin Wall fell a decade ago. It is, rather, a form of what computer aficionados would call systems management—inducing coexisting processes to at best reinforce each other or at least not disable each other.

That the form of 21st-century European governance is so unexpected should itself have been expected. Heartland Europe is postnational in a way neither America nor Russia nor Japan (nor, for that matter, the

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Balkans nor the Caucasus) is. Its method of governance is therefore sui generis. Earlier than other, larger countries, the tiny nations of Europe—Germany, the most populous, is physically no larger than Montana—have been forced to realize that they can no longer cope individually with global drug runners, Chernobyl fallout, and instant electronic transfers of billions of dollars. They must band together, and they have by now ascertained that their decades-long cooperation to resist Soviet coercion was no Cold War aberration. However tempted Margaret Thatcher and François Mitterrand were to revert to nineteenth-century balance-of-power games against Germany after the Berlin Wall fell, more sensible habits of cooperation have now become ingrained.

Thus the European Community (EC) promoted reconciliation between the archenemies France and Germany; gradually conferred legitimacy on post-Nazi West Germany; helped France modernize and surpass reunited Germany in per capita output; eased Spain's and Portugal's graduations from autocracy to democracy; turned Ireland into a high-tech center, made it a destination for immigrants for the first time since before the potato famine, and gave it enough self-confidence to facilitate an eventual peace settlement with Northern Ireland; gave Italy an incentive to discipline its finances and qualify for European economic and monetary union; and gave all citizens of its member countries unimagined prosperity and the longest period of peace in Europe's history. Even after the unifying Soviet threat vanished, the EC proved far too valuable to give up. It was retained and even reinforced to create a genuine single market, proclaim the grand goal of a real European Union, open its doors to the new democracies of central Europe, and most astonishingly, meld Europe's many venerable currencies into the freshly minted euro.

ROLLING, ROLLING, ROLLING

All this was achieved by a rolling form of consensus-building, which avoided lowest-common-denominator compromise by repeatedly making the top performances in various fields the "benchmark" standard for all. Essentially, the EU adapted the domestic-consensus political system of Germanic Europe and the Low Countries both to hold disparate nations together and to break out of the EC stasis of the 1970s and early 1980s. In the post–Cold War era, the EU has repeatedly expanded this practice, treating crisis as opportunity, uncertainty as fluidity, and anxiety about the future in general and German demons in particular as a useful source of energy. The result has been an extraordinary relinquishing of individual sovereignty for the common good in what European governments now perceive not as a surrender but as a positive "pooling" of national sovereignty.

Moreover, this transformation has been helped by developing a culture of peer pressure that defies all conventional institutional or realist analyses. The EU, although already far more than a confederation, will clearly never become a European federation. It has no hierarchy. The European Commission led by Romano Prodi is part manager, part secretariat, part legislature, and part defender of small members' interests against those of the four biggest members. But its staff is tiny (barely matching the number of administrators in Cologne), and it is not an executive. The EU's highest authority remains the European Council, which convenes

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peripatetic bimonthly summits of semisovereign heads of governments or state who engage in permanent ongoing negotiations.

Nor, after Thatcher banged her handbag on the table in the mid-1980s, will the EU ever have the power of the purse for the mass redistributive transfers that individual European nations make for social welfare and the United States uses for regional assistance programs. The EU budget is limited to no more than 1.27 percent of its members' combined GDP—and half of that is locked into farm-surplus entitlements.

Despite the absence of persuasive carrots or sticks, though, the conclave of equals in the European Council and the councils of foreign, finance, agriculture, and other ministers have mustered the political will to leap forward. Votes are virtually never taken, nor are vetoes exercised (except implicitly, usually by the French or the British). Yet issues are somehow talked to death until the holdouts yield to the informal 80 or 90 percent majority. If anything, this consensus-building process is even more pronounced in the obscure but powerful Committee of Permanent Representatives in Brussels, which solves the vast bulk of intra-European issues at a senior bureaucratic level without recourse to the political echelon. And this custom will probably be blessed formally in this year's Intergovernmental Conference with new rules for "qualified majority voting," which will accelerate EU decision-making.

Until 1999, it looked as if military matters would remain exempt from the EU's spreading supranational approach. To be sure, after some French and Spanish resistance, the EU accepted Germany's priority on trying to replicate western European economic and political successes in central Europe by offering these new democracies EU tutelage and, eventually, membership. This common policy has already had a huge impact on the behavior of the candidates. It may be only soft power, but the lure of possible association with the rich and peaceful EU (and NATO) is highly appealing to nations striving to meet the two clubs' democratic and market-related preconditions for membership. The chain reaction of Polish-Ukrainian, Ukrainian-Romanian, Romanian-Hungarian, and Bulgarian-Macedonian reconciliation is the best testimony to the positive impact of both the EU and NATO on their eastern neighbors.

Such a coordinated central European policy was already an innovation when the EU set out its road map for admitting new members in 1993. But the EU's grander ambitions about forging a "common foreign and security policy" and a "European security and defence identity" still seemed a pie in the sky. European commonality in the ultimate commitment of blood lagged well behind the pooling of sovereignty in trade, markets, law, and the environment. Clashes between the intervention-prone British and French and the more pacifist Germans and others—as well as the habit of entrusting security decisions to a U.S.-dominated NATO—precluded any meeting of EU minds.

Last year, however, the Kosovo crisis greatly qualified this exception. In only nine months, the EU made a series of firsts. It endorsed a hot war by NATO forces, with the full support of all EU neutrals; came to regard the Balkans not as the barbarian East but as a part of Europe that must be raised to European standards of human rights; was shocked by its own impotence relative to America's electronic-weapons wizardry; held together

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for 78 days in the face of bitter popular opposition in Greece to the NATO war next door; agreed to fold the Western European Union (WEU) into the EU; appointed the high-profile politician Javier Solana rather than a faceless clerk to be Europe's inaugural "Mr. Foreign Policy" and double-hatted him as interim WEU secretary-general, with the ex officio right to sit in on North Atlantic Council meetings; set the goal of creating up to 60,000 European rapid-reaction troops that could be mobilized within two months for a two-year deployment; held a joint meeting of EU foreign and defense ministers; and put Turkey on the candidate list for future EU membership.

BORDERLINE SCHIZOPHRENIA

Inevitably, such unwonted European activism in a realm that previously belonged exclusively to NATO has triggered a schizophrenic reaction in the United States and has led to skirmishes with NATO. Washington approves of the European desire to assume more of the common Western military burden but does not want this to prejudice unilateral American action. For their part, the Europeans have differing goals: the French would like to cut the hegemonic "hyperpower" down to size, whereas the British and the Germans want exactly the opposite—relieving the United States of enough of its security burden in Europe to prevent an isolationist Congress from someday yanking U.S. troops home in disgust. But for all their internal differences, the Europeans all insist that contributing more treasure and, potentially, blood to the transatlantic partnership must also mean that Europe gains more say in NATO decisions.

To those fluent in the arts of the Westphalian nation-state and used to America's way of making policy by confrontation rather than consensus, such a European claim seems suspicious. Henry Kissinger, for one, views the development with profound mistrust and asks whether Europe is really turning anti-American and trying to weaken U.S. leadership. The Clinton administration, although more relaxed about a nascent European "defense identity" than its Republican predecessors, praises European efforts in official public statements but then briefs journalists about the risks of Europe's going it alone.

Of course, NATO too has changed in the last ten years. It has shifted not only from large-unit territorial defense to regional crisis management but also from overtly military tasks to more political ones that impinge on EU turf. And for all the new NATO-EU cooperation in the former Yugoslavia, the simultaneous probes by the two organizations for new roles in the present fluid situation sometimes aggravate rather than alleviate transatlantic strains. This is evident in the question of who should handle which future brushfires, American complaints about the EU's slowness to admit new central European members, and the jostling about who sets the agenda in Europe.

Thus such U.S. commentators as former Treasury Secretary Robert Rubin and the editorialists of *The Washington Post*—disregarding poor postcommunist economies' need for complex and time-consuming restructuring to prepare them for EU competition—feel aggrieved at the slowness with which the EU is taking in new members. NATO has moved faster and has had to assume too much of the responsibility for attaching the central

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Europeans to the West, they argue. The EU is dragging its feet. Meanwhile, they add, NATO has taken the necessary lead in improvising the Partnership for Peace to exert a calming influence and signal the West's interest in security in Ukraine and other states beyond the immediate circle of central European candidates.

But Europeans, many Germans and French retort, are providing the lion's share of assistance and investment for the region. Now that Belgrade has been diverted from old-fashioned Serbian imperialism, the real security threats on the continent today are economic and social rather than military. The normative impact of the EU system is already stabilizing and transforming central Europe. And heartland Europe's more existential stake in what kind of identity its neighbors adopt means that the EU should lead on such issues as using gunboats to enforce an oil embargo against Montenegro's Adriatic port during the war in Kosovo or supplying opposition governments in Yugoslav cities with heating fuel in winter.

To establish a framework for resolving future disputes, the allies have invented some imaginative terminology. Guidelines have been written for "Combined Joint Task Forces"—European-only troops that could mount operations with the help of "separable but not separate" NATO airlift, intelligence, and other assets "when NATO is not engaged." And European rapid-reaction forces are to avoid the "three Ds" of "duplication," transatlantic "decoupling," and "discrimination" against continental countries like Turkey that are members of NATO but not (yet) of the EU.

Such formulas do not guarantee reconciliation of the different movements of Europe's premier institutions, of course. But they do presume a common transatlantic enterprise in which NATO and the EU jointly constitute the indispensable governing apparatus of 21st-century Europe and in which elite opinion on both sides of the Atlantic is taken into consideration. The natural corollary is that the emerging architecture linking the two institutions can and must be deliberately shaped to maximize that transatlantic interaction and render NATO and the EU not only compatible but synergetic.

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The Immigration Safety Valve

Keeping a Lid on Inflation

Stephan-Götz Richter

More than any other factor, the state of the U.S. labor market has colored the Federal Reserve's ever vigilant outlook on inflation—which is not surprising, since 70 percent of business costs are labor costs. Fed Chair Alan Greenspan has repeatedly pointed to the state of labor markets when justifying interest rate increases: as he declared recently, "There has to be a limit to how far the pool of available labor can be drawn down without pressing wage levels beyond productivity."

Greenspan may have cause for concern. America's booming economy is putting so many people to work that the fight to hire the remaining workers could spark wage-driven inflation. During good times, as firms become increasingly desperate for labor—especially of the skilled sort—they generally boost their wages to attract workers from the diminishing labor pool. And today's robust economy is giving Americans more and more money to spend, accelerating growth further. Both trends are classic precursors of inflation.

But the Fed has yet to tighten monetary policy substantially, apparently feeling that the economy is still not too hot, not too cold, but just right. The reason is that the large, steady influx of foreign labor into the United States—coming from legal immigration, illegal immigration, and the temporary employment of skilled workers—keeps adding enough new workers to the economy to ease pressure on wages. U.S. labor costs have grown at an annual rate of only 1.5 percent in the second half of the 1990s, compared to about 3.5 percent in the 1980s. Even as job growth has soared in the past year, labor costs and wages have shown few signs of accelerating.

Temporary employment is especially vital in relieving pressure in the tightest areas of the labor market, such as the high-tech sector, where wage inflation is most likely to occur. In 1998, some 24 percent of immigrants who had entered the U.S. labor force between 1995 and 1998 had occupations classified as professional and technical specialties, compared to 16 percent of all workers. Of course, wage inflation can be created by low-wage industries as well—if there aren't enough workers in a sector. Therefore, less-skilled workers can cause inflation just as much as high-skilled workers can. Although the high-tech

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Stephan-Götz Richter is President of TheGlobalist.com, an on-line think tank on the global economy.

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Sources of U.S. Immigration: The Top Ten

Legal Immigrants	*Illegal Immigrants*	*H1-B Visas*	*All Sources*
Mexico	Mexico	India	Mexico
Philippines	El Salvador	China	India
India	Guatemala	Canada	China
Vietnam	Canada	Philippines	Philippines
China	Haiti	Japan	El Salvador
Dominican Republic	Philippines	South Korea	Canada
Cuba	Honduras	Pakistan	Dominican Republic
Ukraine	Dominican Republic	Russia	Vietnam
Russia	Nicaragua	Taiwan	Russia
Jamaica	Poland	United Kingdom	Guatemala

SOURCE: IMMIGRATION AND NATURALIZATION SERVICE

sector is the most sensitive area, all immigrant workers help keep inflation from picking up—and keep the Fed from raising interest rates.

Without workers from India and Mexico—as well as from China, the Philippines, El Salvador, Canada, the Dominican Republic, Vietnam, Russia, and Guatemala—the Fed would long ago have raised interest rates to dampen inflation. Since 1990, immigrants have filled almost 5 million new jobs—which would just about cover today's level of unemployment. Absent this immigrant labor pool, the U.S. unemployment rate, instead of hovering around its current historic low of four percent, would in fact be much lower.

It is not always necessary for foreigners to move to the United States to join its labor market. U.S. corporations have also managed to expand their labor pool to include overseas workers. For instance, some U.S. companies have established medical insurance claim-processing facilities in Ireland and the Caribbean; others are employing computer programmers in Lahore, Pakistan. Even this offshore labor force helps protect the U.S. economy from inflation.

So what would happen if the unemployment rate dropped even further? Wages would rise rapidly, too much money would be chasing too few workers and goods, and inflation would pick up. The Fed would then squeeze the brakes on monetary policy and sharply raise interest rates. The resulting downturn in growth would make the U.S. economy that much smaller—and weaker. All this could happen if the United States shuts its doors to immigrants.

WHO WANTS TO BE A MILLIONAIRE?

All nations can experience labor shortages in skilled professions, such as computer

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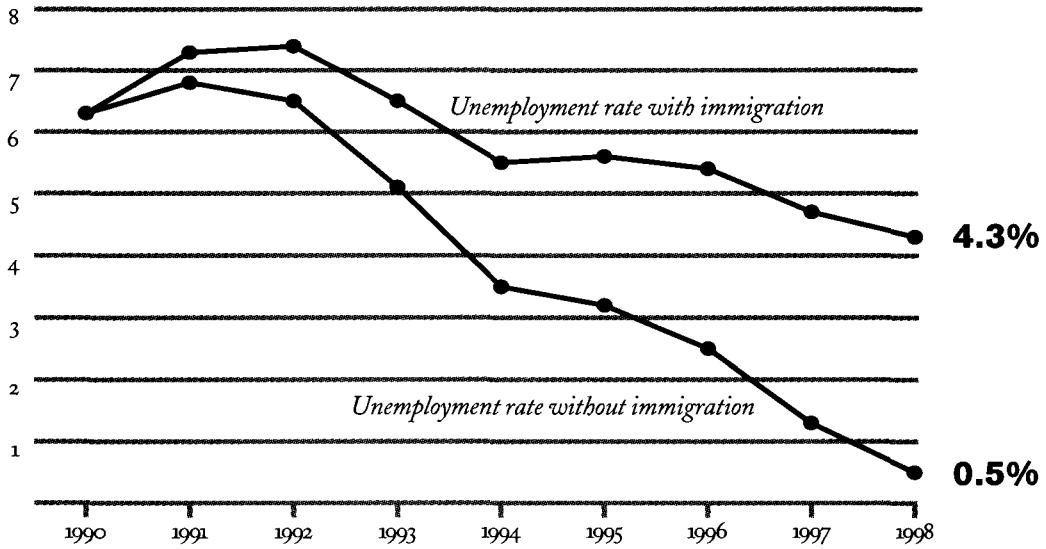
The Impact of Immigration on U.S. Employment



NOTE: MEASUREMENTS ARE FOR DECEMBER OF EACH YEAR.
SOURCES: BUREAU OF LABOR STATISTICS, DEPARTMENT OF THE CENSUS, AND THEGLOBALIST.COM

programming. But the United States has an easier time recovering from these than most. One explanation is the worldwide use of English among skilled workers. For some observers, such as Kaoru Yosana, Japan's minister of international trade and industry, English alone explains America's appeal to workers. "English has become a common language, so it's natural for the best and brightest to go to America to study," Yosana argues.

Beyond language, however, many young, talented professionals around the world are finding an alternative to toiling for a large local company: the prospect of making it big by working for a start-up high-tech company in the United States. It is no wonder that more people are choosing the riskier U.S.-bound path. Stock options are a global magnet for the high-tech elite, regardless of their places of birth. For example, almost half of all recent graduates of the prestigious Indian Institute of Technology (IIT) have come to the United States after graduation; by some estimates, 20 percent of IIT alumni now work in America. Fatigued by over-regulation, high taxes, stifling career paths, and entrepreneurial impediments, a growing number of young Europeans, Asians, and other foreigners are ready to move to richer U.S. shores.

But from the perspective of other nations, America's pull on the world labor market spells disaster. The French media, for example, are crying about a "hold-up," by which the United States is robbing many countries of their best workers. And their native countries have cause for concern—they fund the educational and professional training that lets young workers acquire the skills the

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high-tech industry seeks. Foreign workers hoping to find their success in the United States are typically among the more ambitious and dynamic members of their societies. Just as these ambitious workers become productive, taxpaying citizens, they begin dreaming of coming to America.

Politicians abroad are beginning to feel the pressures of the American "global brain drain." In a world where knowledge and entrepreneurship are the keys to prosperity, a country's main economic resource—its brightest and most creative people—can simply walk out the door.

U.S. immigration policy is quite strict—and many Americans would restrict it further. But those who want to close U.S. doors even tighter need to consider this basic fact: immigration has been a key element in making the U.S. economy the envy of the world in the 1990s. It is in America's interest to keep it that way.

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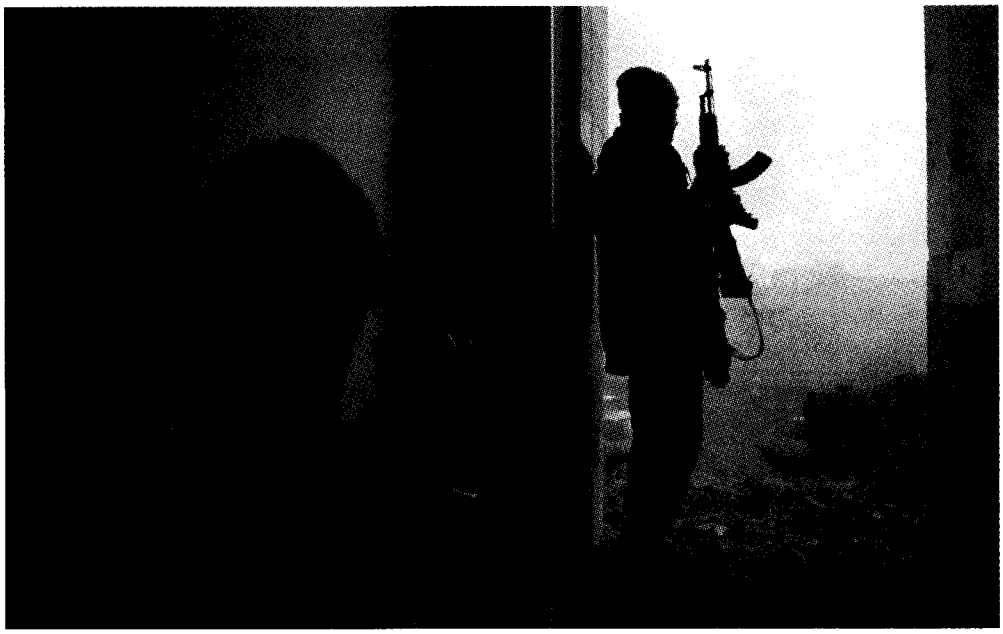

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Chechen rebels guarding the presidential palace, Grozny, December 1994

Robber barons, the fight for Chechnya, and restless regions are weakening the Russian Federation.

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Putin's Plutocrat Problem

Lee S. Wolosky

FACE OFF

When Russian President Boris Yeltsin resigned on December 31 of last year, he thrust Vladimir Putin, a relative unknown, into the limelight. Today, just a few months later, it is still too early to determine the extent of the former KGB agent's commitment to democracy and free markets. But if Putin decides to match words with deeds, he will enjoy an encouraging alignment of the political stars. Unlike Yeltsin, Putin can count on the support of the public and of the Duma, Russia's lower house of parliament. He has also built bridges with rival political leaders. For a limited time at least, he can use this support to press ahead with difficult reforms.

To do so, however, he must first rein in a dangerous posse of plutocrats riding roughshod over the country. This is something his predecessor could not, or would not, achieve. On the contrary, these oligarchs—Boris Berezovsky, Mikhail Khodorkovsky, Roman Abramovich, Mikhail Fridman, and others—largely co-opted Yeltsin's governments, silencing most opposition to their conduct. As a consequence, they now threaten Russia's transition to democracy and free markets. They also threaten vital U.S. interests, because America's long-term security is best assured by the success of Russia's transformation.

The oligarchs dominate Russian public life through massive fraud and misappropriation, particularly in the oil sector. Oil is of overwhelming importance to Russia and the oligarchs. Prior to its collapse, the Soviet Union was the world's largest oil producer. Oil companies

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account for nearly 60 percent of the market capitalization of the Russian stock market, and oil receipts amount to about 22 percent of the government's budget revenues. Whoever controls this massive industry controls much of the world's oil supply—and today it is the oligarchs.

The August 1998 financial crisis practically wiped out the plutocrats' financial assets. But those who suggest it undermined their influence are dead wrong. Oil revenues sustained the tycoons' economic and political power, and the oil oligarchs are once again awash with cash, thanks to the ruble devaluation of 1998 (which lowered costs) and the steep climb in oil prices in 1999 (which boosted revenues). Because they remain among the strongest political and economic actors in Russia—a major nuclear power whose future is crucial to America—the plutocrats merit close scrutiny.

MAKING IT

In 1995, a businessman named Vladimir Potanin concocted a brilliantly self-serving scheme: the financially strapped Russian government would mortgage the state's most valuable industrial assets to a few politically connected insiders for far less than fair value.

The story of how the Russian government relinquished control of its largest enterprises (almost all of them oil companies) through a rigged "loans-for-shares" program has been described elsewhere.[1] In short, government shares in large enterprises were placed under trust management with oligarch-affiliated banks and financial institutions in exchange for loans to the state. When the government defaulted on these loans—as was all but assured—the creditor-trustees acquired the right to auction the collateral stakes. Almost invariably, the auction winners turned out to be affiliates of the banks, who paid only a nominal amount above auction starting prices. And so the oligarchs gained control of the state's most valuable assets at knock-down prices.

To fund at least part of their winning bids, the oligarchs appear to have used the government's own money. In the early and mid-1990s,

[1] See, for example, Ira W. Lieberman and Rogi Veimetra, "The Rush for State Shares in the 'Klondyke' of Wild East Capitalism: Loans-for-Shares Transactions in Russia," *George Washington Journal of International Law and Economics*, vol. 29, no. 3, 1996, p. 773.

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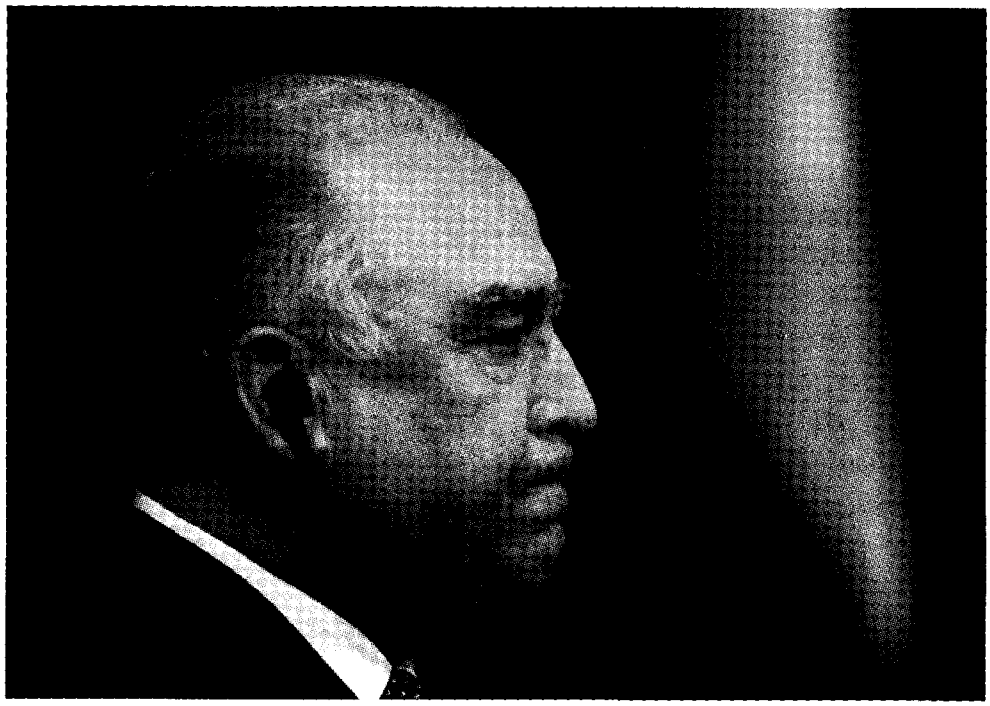

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Company men: Viktor Chernomyrdin ...

"authorized" banks controlled by the plutocrats misappropriated billions of dollars from the government, either directly or through sweetheart deals involving the custody of public funds. For instance, $512 million entrusted by the Russian government to affiliates of Potanin's Unexim bank reportedly disappeared. According to a government audit, billions of dollars in federal funds entrusted to oligarch-affiliated banks for the reconstruction of Chechnya also vanished. Even when government funds held by the oligarchs' banks were paid to their intended beneficiaries, they came late and without the substantial interest earned from interim investments in short-term government debt. The enormous yield on those investments was pocketed by the banks, an arrangement presumably facilitated by kickbacks to bureaucrats or by their lack of appreciation for the time value of money.

The industrial assets bought at auction by the oligarchs were considerable and the prices paid a relative pittance. Affiliates of Khodorkovsky's Rosprom-Menatep group acquired control of the Yukos oil company for $159 million. Yukos is one of the largest oil companies in the world: last year it produced 44.5 million tons of crude oil worth approximately $8 billion at current market prices. Its proven reserves amount to

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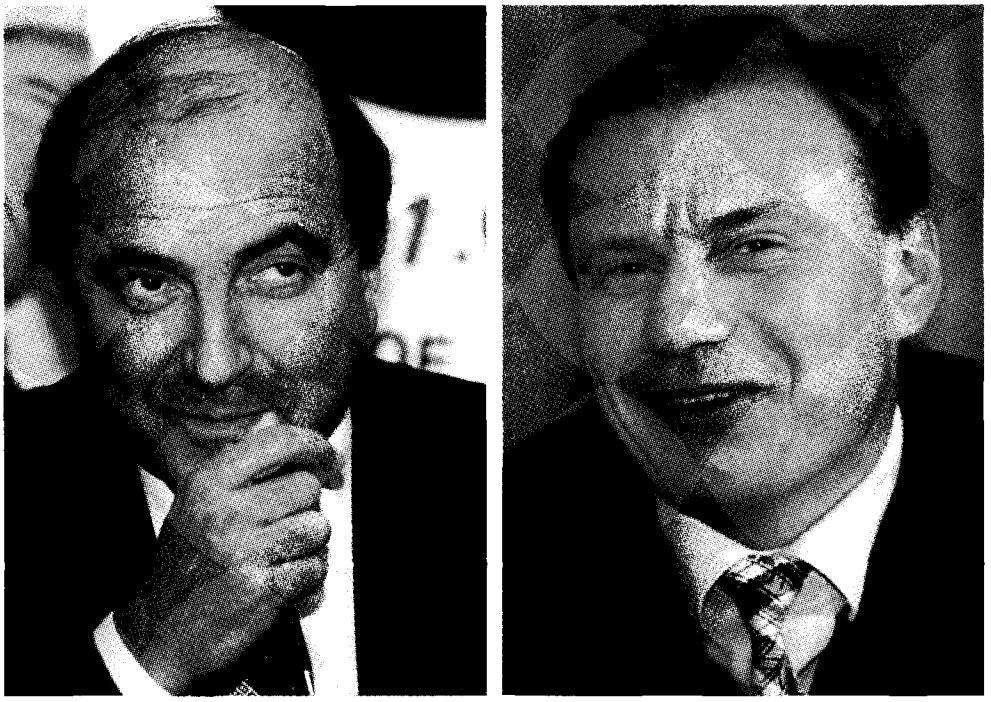

AP/WIDE WORLD PHOTOS

... Boris Berezovsky, and Vladimir Potanin

11.5 billion barrels, comparable to those of British Petroleum prior to its merger with Amoco. Meanwhile, affiliates of Berezovsky and Abramovich acquired control of Sibneft for only $100.3 million. In recent years, Sibneft has produced oil worth $3 billion annually, and its proven reserves rival Texaco's. Potanin's Interros-Neft acquired control of Sidanko, a comparably sized company, for $130 million. He later sold ten percent of it to British Petroleum for $571 million.

The oligarchs' oil assets are actually holding companies with no operating businesses of their own. Their value lies in their ownership of stakes in vast oil production companies that employ tens of thousands of people. Rather than investing in and restructuring these production companies, the oligarchs looted them—thereby defrauding a wide range of stakeholders, including workers, pensioners, suppliers, minority shareholders, creditors, strategic partners, and local, regional, and federal governments that depend on the companies for tax revenues.

Just how does this pillage occur? Transfer pricing is one of the oligarchs' most reliable methods. The tycoons force Russia's oil production companies to sell oil to parent companies at below-market prices. A portion of that oil is then resold on world markets at the

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prevailing price. The oligarchs thus systematically strip value from operating companies and their stakeholders. For example, in the first nine months of 1999, Yukos forced its three partially owned subsidiaries to sell it some 240 million barrels of oil at approximately $1.70 per barrel—at a time when the average market price was about $15. Yukos then exported nearly a quarter of that oil to world markets. And so Khodorkovsky's Yukos managed to siphon off some $800 million during a span of approximately 36 weeks.

Whole regions of Russia are being impoverished by the oligarchs' theft.

Despite the fact that these practices are illegal under Russian law, virtually all of Russia's oil oligarchs engage in them—with predictable results. Whole regions of Russia are being impoverished. By mid-1998, regional and local tax arrears in Nefteyugansk, where Yukos' main production company (and little else) is located, exceeded $200 million. According to Nefteyugansk's mayor, these shortfalls brought the region to "the verge of disintegration." In addition, wage arrears and drastic pay cuts for oil workers led to a "socially explosive situation." Investors, of course, are also defrauded. Minority shareholders in Yukos-controlled oil production companies include U.S. and international investors, as well as thousands of individual Russians; Yukos-controlled Tomskneft, for example, has more than 13,000 individual Russian shareholders, many of whom are workers and pensioners in the Tomsk region and each of whom holds only a handful of shares.

The massive dilution of capital has been another method of pillage. In September 1997, Sibneft (controlled by Berezovsky and Abramovich) engineered the issuance of more than 44 million new shares of its principal production company, Noyabrskneftegaz, at a below-market price. Those shares were sold to affiliates of Sibneft, who then transferred them to the parent company itself. The transaction diluted the equity of existing Noyabrsk stockholders by 75 percent. Because the stock was sold below market price, the transaction also resulted in the transfer of over $400 million in value. And Berezovsky and Abramovich later used their new supermajority voting power to merge Noyabrsk out of existence.

Not to be outdone, last year Khodorkovsky tried to defraud both creditors and minority shareholders through shady offshore transactions.

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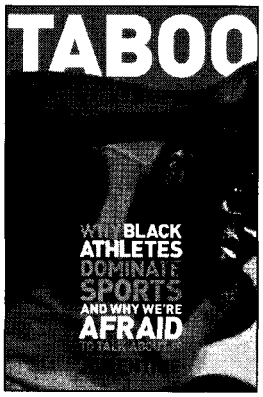

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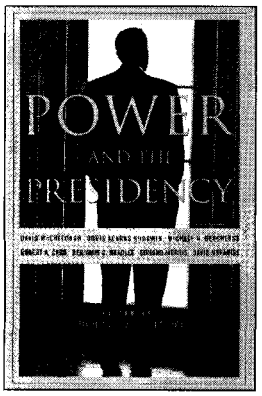

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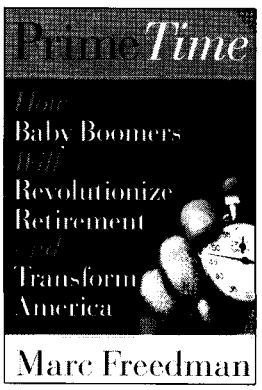

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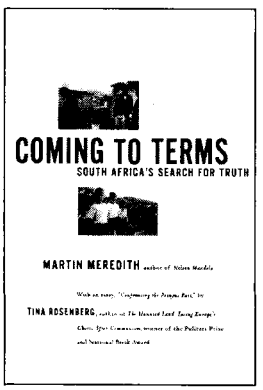

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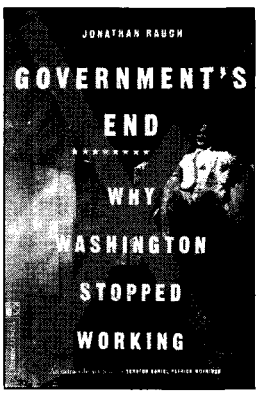

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After three international banks acquired approximately 30 percent of Yukos following a default on a loan to an affiliated bank, Khodorkovsky sought to turn Yukos into an empty shell. He forced it to convey its most significant asset—its controlling position in oil production subsidiaries—to unknown offshore entities. At the same time, he attempted the mother of all share dilutions: by transferring a massive number of new shares to offshore entities he is believed to control, Khodorkovsky sought to water down shareholder stakes in Yukos' oil production companies by as much as 240 percent. And despite injunctions in places ranging from the British Virgin Islands to the Isle of Man, Khodorkovsky is still moving forward with the transactions.

But the pillage does not stop there. The oligarchs loot their companies even more directly—by stealing valuable assets, including wells, equipment, and anything else that can be found on an oil field. Over the past two years, Yukos has forced its subsidiaries to transfer substantial assets to new companies—notwithstanding a conflicting February 1998 order by the Russian Federal Securities Commission. In fact, from 1997 to 1998, Yukos made the oil production companies it controls part with assets having a book value of some $3.5 billion.

The victims have not been limited to bit players; asset-stripping has also victimized major international oil companies. In a highly publicized case, Fridman's Tyumen Oil Company (TNK) allegedly stole Sidanko's most valuable assets by manipulatinig the bankruptcy process. According to defrauded Sidanko shareholders (who include BP Amoco), the theft was carried out through the corrupt appointment of a TNK-friendly receiver, the unlawful reduction of the claims of major creditors such as the European Bank for Reconstruction and Development (in which the United States holds shares), and a rigged bankruptcy "auction" in which only TNK-affiliated companies could bid.

This was not BP Amoco's first run-in with the oligarchs. In 1993, Amoco, in a joint venture with Yuganskneftegaz, won an international tender for half of the massive Priobskoye oil field—the largest undeveloped field in Russia. After Khodorkovsky gained control of Yuganskneftegaz in 1995, he offered Amoco new terms: more money for a smaller stake. When Amoco referred to the signed contract in protest, Khodorkovsky reportedly only smirked—and then kicked

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Amoco out of the Priobskoye project altogether, notwithstanding four years of work and an investment of at least $100 million.

TOUGH LOVE

PUTIN'S SUPPORT for the early ratification of START II and for other arms control initiatives is commendable. But absent unilateral Russian disarmament, America's security would best be assured by Russia's transition to a democratic, market-oriented, and law-based state. To the extent that the oligarchs jeopardize that transition, they threaten more than the triumph of American values. They threaten the vital American interest in assuring dependable stewardship of Russia's vast nuclear arsenal. The oligarchs also threaten the security of the West's oil supply. The dangers they pose have economic, political, and strategic dimensions—and so too must the American response.

The oligarchs' malfeasance has deprived Russia of the private investment it needs to complete its economic transition. Russia needs capital—far more than is available from public sources. According to Anatoly Chubais, the principal architect of Russia's privatization program, Russia needs hundreds of billions of dollars for industrial restructuring and modernization. Yet private investors have abandoned the country because, among other things, their legal and economic rights are abused there with consistency and impunity.

Investor fear has a ripple effect not limited to the oligarchs' own enterprises. Widely publicized misconduct involving Russia's largest companies and most prominent business leaders scares away international investors from all Russian companies—including those with no intention of defrauding anyone. The problem is compounded by staggering capital flight, which removes further funds from the cash pool available for investment in Russian industry. In recent years, Russia has received less direct investment than has Peru. At the beginning of 1999, daily trading volumes on the Russian stock market were less than $1 million and have since risen to only $15–20 million. The total market capitalization of all companies listed on the Russian stock exchange is approximately $36 billion. By contrast, the market capitalization of Yahoo alone exceeds $90 billion. Russia's economy will never evolve into anything resembling a normal market economy at such levels of investment.

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The effect of the oligarchs' conduct on private investment also raises fundamental questions about international lending programs to Russia. Few would dispute that support from international financial institutions should not be extended to any country indefinitely. Instead, public moneys should be provided to overcome short-term liquidity crises—but only until they can be supplanted by more significant private capital. Yet Russia, thanks in large part to the oligarchs, is not a likely candidate for the early return of private capital—from either Russian or international sources.

To account for this reality, Western leaders should rethink the conditions they attach to credits given to Russia by institutions such as the International Monetary Fund or the World Bank. Contrary to the proposals of certain European leaders and U.S. presidential candidates, conditions should not be narrowly tied to events in Chechnya, where the United States lacks vital interests, but to developments in Russia as a whole, where America has a range of such interests. Second, conditions should be designed to help create the kind of environment necessary for the return of private capital. Although current and potential investors in Russia value macroeconomic stability and responsible fiscal policies, they frequently have more basic concerns, such as how to protect their investments from outright theft. Public lending should be conditioned on building the institutions of government necessary to prevent such larceny. Deep structural and institutional reform will be strongly resisted by the oligarchs, but it is necessary nonetheless. Without it, public moneys will be wasted, and Russia will become a permanent beneficiary of international welfare.

REINVENTING GOVERNMENT

THE RECENT UNWILLINGNESS or inability of Russia's senior leadership to curtail the oligarchs' predation raises serious questions not only about the prospects for the development of free markets and the rule of law, but about Russian democracy itself. After the last presidential election, in 1996, the oligarchs captured Yeltsin, his successive governments, and the political process. Regrettably, few signs so far point to significant changes under Putin.

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In October 1999—after Putin had already become prime minister—Russia's chief market regulator, the reformer Dmitri Vasiliev, resigned in protest over his inability to stop Yukos' fraudulent offshore share transactions. Vasiliev had earlier requested a criminal investigation of the deals, the third inquiry into Yukos requested or begun by Vasiliev's Federal Securities Commission since February 1998. Uncooperative government agencies and a corrupt Russian judiciary, however, thwarted Vasiliev's efforts. An interagency investigation initiated by Vice Premier Vladimir Bulgak in March 1999 met a similar fate.

In Moscow, $50,000 can still stall a criminal investigation.

These failures are hardly surprising. The oligarchs enjoy enormous political power, derived from their money, media control, and direct and indirect participation in decision-making at many levels of government. Russia's energy oligarchs have invested wisely; they provided Yeltsin's 1996 presidential campaign with unlimited financial support, which enabled him to wrest victory from Communist Party leader Gennady Zyuganov. And the oligarchs were amply rewarded for their generosity. Both Potanin and Berezovsky served in high government office, Potanin as first deputy prime minister and Berezovsky as deputy secretary of the National Security Council and then as secretary of the Commonwealth of Independent States. Fellow energy baron and former Gazprom head Viktor Chernomyrdin led the government as prime minister from 1992 through 1998. (Gazprom, the huge gas monopoly, is Russia's largest company.) Chernomyrdin is widely rumored to be one of Gazprom's largest shareholders and Russia's richest citizens.

Even after Chernomyrdin's ouster, the oil oligarchs' privileged access to power continued. Berezovsky and Abramovich allegedly handled Yeltsin family finances. Khodorkovsky routinely traveled with the prime minister—whoever that happened to be. He was reportedly aboard Yevgeny Primakov's plane to Washington in March 1999 when it reversed course in midair to protest the NATO bombing of Kosovo. And in September 1999, he accompanied then–Prime Minister Putin to New Zealand for an economic summit.

When not serving personally as high government officials or whispering in the ears of those who are, the oil oligarchs protect their

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interests through highly placed proxies. Khodorkovsky's man, former Yukos senior official Sergei Generalov, served as minister of fuel and energy from 1998 to 1999. Berezovsky's agent, Nikolai Aksenenko, was until recently the first deputy prime minister. Another Berezovsky proxy, Alexander Voloshin, is head of the presidential administration. And Voloshin's top deputies include two men from the financial interests controlling TNK.

The loyalty of lesser officials is routinely secured through bribes, kickbacks, and "charitable contributions." A favorite scheme involves buying the allegiance of law-enforcement officers by donating motor vehicles. An investigation of Yukos in Moscow, for example, was complicated after Yukos promised to buy cars for the Federal Security Service. Similarly, Sibneft has reportedly donated 50 Land Rovers to the Omsk police.

Sometimes payoffs are even more direct. In Moscow, $50,000 can stall a criminal investigation. The Russian judiciary faces similar temptations. In cases involving the oligarchs, trial and appellate court judges are routinely bribed. Failing that, judges who evince a dangerous predisposition to impartiality are reassigned without explanation by superiors who are presumably on the take.

Oligarch money has infused all of Russia's political movements.

The pervasive political influence of Russia's oil oligarchs shows no likelihood of rapid abatement. Putin has not swept house at the Kremlin. On the contrary, one of his first official acts was to reappoint Voloshin head of the presidential administration. Voloshin, in cahoots with Berezovsky, has been accused by former Soviet President Mikhail Gorbachev of helping orchestrate Yeltsin's removal.

Oligarch money has infused all of Russia's major political movements, even the relatively incorruptible, pro-Western, reformist Yabloko bloc. In addition to funding Russia's major political parties, the oil oligarchs offered their own hand-selected candidates during the recent parliamentary elections. Some even stood for election themselves. Yukos' Generalov secured a Duma seat. Berezovsky, who is widely credited with helping mastermind the meteoric rise of the pro-Kremlin Unity Party, won a seat representing a district

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in Karachay-Cherkessia, and Abramovitch was elected for the remote Chukotski Peninsula.

To be sure, big business interests infuse the political systems of many countries, including the United States. But in Russia, the political influence of the oligarchs is largely the fruit of criminal activity. It is also amplified by several factors unique to that country. One, as Russia scholar Michael McFaul has noted, is the weak party system. Russia lacks true political parties. What it has instead are loose, poorly organized coalitions centered around one or two strong personalities. This lack of a real party system inhibits conflict resolution among competing interest groups. Compounding matters, civil society is woefully underdeveloped. Institutions and interest groups that could potentially countervail the influence of the oligarchs are weak. Labor is disorganized; small business is virtually nonexistent; civic organizations are confused and dispirited.

Significantly, Russia also lacks a free press—not because of government censorship but because of oligarch control of the most meaningful media outlets. Berezovsky controls the ORT television station; TV-6; the newspapers *Nezavisimaya Gazeta, Novaya Izvestiya,* and *Kommersant;* and *Ogonek* magazine. Potanin controls the newspapers *Izvestiya, Komsomolets,* and *Russki Telegraf* and *Ekspert* magazine. Until recently, a Khodorkovsky lackey even served as deputy head of ITAR-TASS, the state news agency.

That Russia lacks independent institutions, interest groups, or news media to counter the oligarchs is hardly surprising. The tycoons' predation has sucked up the country's wealth and impoverished broad swaths of Russian society. A basic gauge of income inequality, the Gini coefficient, has doubled in recent years. Financial theft has deprived ordinary people and governments at several levels of their fair share of the fruits of Russian industrial activity. All this prevents the diffusion of social, political, and economic power within Russia and runs counter to vital U.S. interests in promoting Russian democratization.

The financial power of the oligarchs is changing political dynamics in Russia in other, less obvious ways. For one, it is hastening centrifugal tendencies within the country. As in communist days, economic value continues to be siphoned from Russia's regions to the center and returned to the regions in the form of various transfer payments. Now,

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however, the recipients of Russia's wealth and the distributors of largesse are increasingly Moscow-based financial elites, not the Kremlin. This marginalizes the Kremlin's political influence in Russia's restless regions.

The oligarchs' control over local purse strings manifests itself in their patronage of social infrastructure and haphazard tax payments to local and regional authorities. The infrastructure attached to an oligarch-controlled enterprise may include schools, hospitals, and recreation facilities; such "social assets," a relic of communism, still play an important role in many communities built around industrial enterprises. Support for social infrastructure buys the oil barons considerable local influence.

More significant, local and regional tax payments are no longer based on objective criteria. Instead, they are negotiated between plutocrat and governor, many of whom lack the power to discipline recalcitrant oligarchs.

A similar situation exists at the federal level. The fact that tax payments by Russia's energy tycoons, when made at all, are negotiated affairs is testimony to the oligarchs' power and the weakness of the state. These arrangements threaten more than the development of Russian democracy. They undermine the very integrity of the Russian Federation.

GET PERSONAL

EVEN ACCOUNTING FOR a precipitous drop of almost 50 percent in the past ten years, Russia still produces more oil than any country in the world except the United States and Saudi Arabia. Yet control over Russian production now lies firmly in the hands of rogues, plutocrats with greater productive assets than the largest Latin American drug cartels. The largest Russian oil companies today are little more than semicriminal groups that defy international standards of lawful conduct. Certain oil oligarchs or their close associates are currently under investigation by U.S. and European law-enforcement officials for money laundering, corruption, and fraud.

The oligarchs' criminality therefore threatens more than the security of the world's energy supplies; to the extent that it leaks out of Russia, it also challenges the West's commitment to the international rule of law.

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At issue are not simply cases of financial impropriety. The oil oligarchs are extremely ruthless. People who get in their way—even ministers of the Russian Federation—are routinely threatened. A senior TNK official involved in the Sidanko–BP Amoco dispute allegedly waved a pistol in the face of the mayor of Nizhnevartovsk. A local judge who had made a decision adverse to TNK was reportedly beaten in the street. In June 1998, the mayor of Nefteyugansk was murdered. That spring, he had led a very public crusade and hunger strike against Yukos, protesting the enormous wage and tax arrears that he claimed were impoverishing the region. A rowdy public protest was held outside a shareholders' meeting, trapping Yukos' president inside for several hours. The mayor had previously sent a secret cable to Prime Minister Sergei Kiriyenko requesting his assistance in the showdown. But the mayor was found dead before Kiriyenko could answer.

Elsewhere, in March 1999, the car of a Russian oil executive allied with Western investors against Yukos was attacked in a military-style ambush. The executive was not in the car at the time of this attempt on his life—the second such attack. His bodyguards and driver were not as fortunate, however: one was killed in the assault, the others badly wounded. A similar fate awaited the general director of the Omsk oil refinery, the largest in Russia. The month before Sibneft came into existence, he was found floating in a river. He was said to have opposed the planned handover of his refinery to Sibneft. In September 1995, the man who handled most of Noyabrysk's crude exports was luckier. He was thrown in jail and released months later without being formally charged.

In the face of such venality, what is the West to do? Apart from changing its approach to public-sector lending, it must get personal. Russia's oil oligarchs should be treated like pariahs. They should be denied access to international capital for the companies they control. They must get no support from federal agencies such as the U.S. Export-Import Bank. To contain Russian crime and corruption, U.S. and Western law enforcement agencies should vigorously prosecute cases in their jurisdiction. That will help ensure that money misappropriated from Russia is returned to Russia. It will also prevent the West from becoming a safe haven for overseas criminality and will uphold America's commitment to the rule of law. Not only should

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Washington, Wall Street, and London refuse the oligarchs the respectful receptions and prestigious platforms they crave for self-legitimization, but certain of the oligarchs should be denied visas to visit the West for any purpose.

Pariah status should continue until the oligarchs modify their behavior—or until Putin renationalizes that country's rogue oil companies. Given the extraordinary circumstances and the considerable stakes, the United States and multilateral organizations should actively encourage and support renationalization and reprivatization on a case-by-case basis. In the battle against the oligarchs, Moscow and the West must rely on every weapon available. If they do not, the oligarchs will.

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Russia's Ruinous Chechen War

Rajan Menon and Graham E. Fuller

DECLINE AND FALL?

THE RUSSIAN FEDERATION may be falling apart—and its war against Chechnya is showing why. Unfortunately, most observers of the war in Chechnya miss the larger implications, limiting their analysis to the struggle for independence of one small region. Moscow blames radical Islamists for the trouble. Despite the undeniable role of fundamentalists in the Caucasus, however, Moscow had a greater hand in the federation's decline than it cares to admit.

Russia's latest war with Chechnya was sparked in August 1999 when radical Islamists, many of whom had infiltrated from Chechnya, staged uprisings in the neighboring southern Russian republic of Dagestan. Russian troops were sent and, despite Moscow's reassurances that the conflict was under control, the operations had evolved by September into the second full-scale war between Russia and Chechnya in five years. The innumerable deaths, the relentless bombardment of cities, and the torrent of refugees are eerily familiar, recalling the horrors of the 1994–96 Russo-Chechen war.

The Russian army—even while weakened and demoralized—has been more successful this time; Russian officials are proclaiming swift progress. But no real solution—military or political—is in sight. Instead,

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RAJAN MENON is Monroe J. Rathbone Professor of International Relations at Lehigh University and Director of Eurasia Policy Studies at the National Bureau of Asian Research. GRAHAM E. FULLER is former Vice Chairman of the National Intelligence Council and is currently a resident consultant at RAND.

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Russia is drifting back to the hoary Soviet practice of the big lie. It blames the bombing of marketplaces and civilian dwellings on Chechen terrorists and "bandits" while praising its own military for pinpoint strikes that supposedly destroy terrorist strongholds without hurting civilians. Russian leaders dismiss eyewitness accounts of civilian casualties as propaganda or as a double standard employed by the West, fresh from its Serbian war and out to weaken Russia. The Russian news media, too, like their state-controlled predecessors, are sticking to the official story. Only the military setbacks that began in mid-January have forced Russian leaders and the press to be more candid about the extent of Russian losses in the Chechen war. Nonetheless, honest debate is seldom tolerated, as even prominent Russian advocates of democracy and reform equate criticism of the war with disloyalty.

Moscow attributes the turbulence in Chechnya and Dagestan to external forces—the bogeymen of radical Islam and foreign zealots. In doing so, it ignores the country's deeper afflictions. Russia has forced disparate ethnic groups to live together for decades but has proven inept at governing its wobbly empire. Now the fighting in Chechnya is endangering Russia's nascent democracy and dooming its efforts to make the Commonwealth of Independent States (CIS) the attractive coalition of friendly states it needs to be. Short-term Russian military successes will actually increase the appeal of political Islam as an alternative, given the heavy toll of Russia's unrestrained campaign on the lives of ordinary people.

HOW THE SOUTH WAS WON

IT IS NO ACCIDENT that the skein of the Russian Federation should unravel first in the North Caucasus, the bloodiest venue of tsarist imperial expansion. When Russia's Romanovs tried to conquer it in the nineteenth century, it took from 1816 to 1856 to subdue the fierce resistance. Thousands of noncombatants were killed, agricultural land was denied to guerrillas to starve them into submission, and people were deported en masse to various parts of Russia, many dying on the way. More than a million people fled or were expelled from their homelands, settling in Turkey and elsewhere in the Middle East, where they retained their ethnic identity.

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After a period of brief and chaotic independence in the North Caucasus between 1917 and 1922, the Bolsheviks subdued the region anew with even harsher measures. In 1943–44, entire nationalities—Balkars, Chechens, Ingush, and Karachai, of whom Chechens were the largest group—were accused of collaborating with the Germans, loaded on trucks and railroad cars, and shipped to Central Asia. As many as a third of the 618,000 deportees died as a result; those not expelled were killed on the spot.

Using the classic divide-and-rule strategy, Joseph Stalin built artificial multiethnic republics that divided nations—and ultimately sowed separatist and irredentist seeds. These seeds blossomed in the post-Soviet era, when 15 arbitrarily designated "union republics" of the Soviet Union qualified for independence to the exclusion of other, equally deserving ethnic regions. As a result, Russia today remains a mini-empire, not a voluntary federation. Its republics are now coming apart under the pressure of old grievances, a newly resurgent national consciousness, and dissatisfaction with the quality of life.

These old grievances are causing today's problems. In the late 1950s, more than half a million "exiled nationalities" expelled from their original homelands in 1943–44 returned to find their homes and land occupied by other ethnic groups. The Caucasus was soon consumed by feuding between Chechens and Laks in Dagestan, Ingush and Ossetians in North Ossetia, and Turkic Karachai and Balkars and their Circassian neighbors. Sometimes these conflicts turned bloody—like the 1992 violence between Ossetians and Ingush in North Ossetia that forced waves of Ingush refugees into Ingushetia.

Dagestan, home to 34 ethnic groups, was troubled long before radical Islamists surfaced there in the summer of 1999. Its political stability rests on a fragile balance of power between the biggest nationalities—Avars, Dargins, Kumyks, Lezgins, and Laks. Together they account for more than 50 percent of the population and keep the peace by sharing power and wealth. But it has been a precarious peace. Chechens in Dagestan claim land occupied by Laks; Kumyks fear Avar dominance; and Lezgins press for autonomy and a union with their Azerbaijani kin. Elites in the dominant nationalities, whose powers rest on ties to Moscow, face opposition from proponents of change, most of whom object to Russian hegemony. Assassinations

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and bombings are common, as is organized crime—including banditry and ransoms.

Ethnic animosities also exist in two other republics of the North Caucasus. As their names imply, both Karachay-Cherkessia and Kabardino-Balkaria are frail, shotgun marriages that divide nationalities (mainly Turkic and Circassian) across borders and combine dissimilar ethnic groups under one roof.

Compounding the ethnic tensions in the North Caucasus are the travails of high unemployment, pervasive poverty, and rapid population growth. Moscow's subsidies to the provinces have been sharply reduced because of economic problems, creating major troubles in North Caucasian regions that have relied heavily on such support. These hardships are worsened by crime, corruption, political assassinations, bombings, kidnappings, the struggle between communist holdovers and new seekers of power, and the disarray spawned by the decline of the empire.

MARRIAGE OF INCONVENIENCE

THUS FAR, only Chechnya and Dagestan have attracted the outside world's interest through the outbreak of a major conflict. Internal tensions in the other five Caucasian republics—Adygea, Karachay-Cherkessia, Kabardino-Balkaria, North Ossetia, and Ingushetia—have yet to gain international attention. But they are no less significant, and the fallout from Chechnya will only aggravate them.

The war in Chechnya has already sent new tremors into this precarious setting. Ingushetia, desperately poor and mired in social ills, has been overwhelmed by more than 200,000 Chechens fleeing Russian bombardment. The only reasons for the Ingush, as for other groups, to remain in the Russian Federation are the fear of Russian troops and the putative benefit of aid from Moscow. But such aid has stopped flowing, thanks to Russia's economic problems—just as the republics struggle to accommodate the flurry of refugees. In Karachay-Cherkessia and Kabardino-Balkaria, the imperial logic of Russia's artificial unions is also fading fast. Large groups seek to dominate the political order, while disgruntled minorities seek redress, either by trying to unite with their ethnic kin in other republics or by envisioning new units for political power and cultural freedom.

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Moscow has manipulated the tensions between ethnic groups for centuries, but these rivalries now create disorder and threaten its grip on the region. Of course, other instruments of control are also available to Russia. These include the Russian Cossacks, descendants of escaped serfs and fugitives who settled Russia's imperial borderlands. The Cossacks maintain communities in parts of the North Caucasus and are determined to retain ties to Russia and preserve their identity—a melange of martial tradition, Russian nationalism, and Orthodox Christianity. They are eager to repress any manifestations of Islamic identity or linguistic and cultural nationalism among North Caucasians.

But without good governance and an attractive national project, dissatisfied nationalities within the Russian Federation are rethinking their options. The Chechen war will intensify this dynamic of separation by leading even more groups—especially Muslims—to consider independence. As for the newly independent nations of the former Soviet Union, they will question the benefits of membership in the CIS, wondering whether the organization is simply a disguised imperial project that links them to a loser state.

THE APPEAL OF ISLAM

MOSCOW IS RIGHT about one thing: Islam will be the natural vocabulary of the dissatisfied South. Islamic ideology is an important source of identity and mobilized resistance against non-Muslim rule in the Caucasus, and it condemns as illegitimate the ineffective and corrupt regimes of the new Muslim republics. Islamists demand just rule in a region awash with postcommunist corruption. And sharia (Islamic law) offers a historically respected code of law and social discipline after generations of corrupt socialist rule.

To be sure, Islamists include extremists and "fanatics" in their ranks. But a broadening spectrum of political Islam is now a force to be reckoned with in the Muslim-dominated regions of Russia. Russia and other post-Soviet states are becoming increasingly open—through trade, travel, and the flow of information—to cultural currents from the Muslim world, of which the North Caucasus was for so long a part.

Why is political Islam now so appealing to the republics? Existing political systems are eliminating all other political forces without addressing

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underlying economic and social problems, such as poverty, inequality, and corruption—making Islam the default choice. Russia's single-minded depiction of the problem in the North Caucasus as one of Islamic fundamentalism may strike a responsive chord in the West, but it is an oversimplification. Most Chechen forces are driven more by their political gripes with Moscow than by their desire for an Islamic state. Not all the region's fighters are born-again Muslims, foreign Islamic interlopers, Saudi stooges, or exiled Chechens.

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For instance, Moscow has now placed a price on the head of Chechen guerrilla commander Shamil Basayev. But it was Russian military intelligence that trained Basayev in 1992 to fight alongside secessionist Abkhaz forces, in an effort to tame an overly independent Georgia. Russia sent Chechen fighters to other Georgian regions and Moldova to maintain its dominance in the "near abroad." These same forces are now deployed against the Russian army. The wave of bombings in Russian cities in 1999—a key casus belli for Russia—is attributed to Chechens, a debatable conclusion given the Chechens' steadfast denials and, more important, Moscow's failure to produce a shred of evidence.

The guerrilla commander Khattab is characterized in the Russian press as a fanatic Arab interloper. Though dubbed a Middle Eastern "Muslim zealot," Khattab is actually of Chechen origin, resuming the fight for Caucasian independence decades and centuries after his ancestors fled the violence of commissars and tsars. Today's fighters are joined by other battle-tested Muslims from abroad, many of whom gained combat experience during the Soviet war in Afghanistan. Veterans of the anti-Soviet Afghan campaign have embraced an ideology dedicated to rolling back the centuries-long Russian conquest of Muslims. Their methods are sometimes extreme, but so are those of the Russian army. Ordinary North Caucasians are, tragically, caught between fundamentalist Muslim fighters and the Russian army.

This pattern threatens to reproduce itself in a war of extremes, as militant Islam becomes the rationale for Russia's unbridled military force, begetting an even more radical Islam and a stronger Muslim identity. Moscow has convinced itself that Muslim extremists are the essence, not a part, of the problem. As a result, Russia has no viable strategy to govern an increasingly turbulent area.

A WRINKLE IN TIME

DESPITE the number of problems, Moscow still has good reasons to hold on to this hornet's nest. Russians are correct to argue that Chechen efforts to destabilize Dagestan could not have been ignored.

What would happen if Dagestan fell? The other republics would find Moscow too poor to reward them and too weak to punish them.

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Russia's provinces already routinely ignore the center, and a fiasco in the North Caucasus would further strengthen their hands. Thus, the region's push for more leeway might lead to the loss of other non-Russian territories or at least to a debilitating reconfiguration. Although Dagestan is small (with a mere 1.8 million people and half the land of Virginia), the activities of Islamic militants there must be addressed.

First, the Russian government fears that the spread of upheaval from Chechnya to Dagestan and beyond could prompt roughly one million Russians to depart the North Caucasus. This migration would have several dangerous consequences: Russia's meager budget (now only slightly larger than that of Illinois) would suffer an additional burden, jeopardizing the economic recovery begun in 1999; Russian refugees would overwhelm southern Russia; and Moscow's inability to protect ethnic Russians, even within their own country, would further erode the government's legitimacy.

Second, the economic stakes are high in Dagestan, even higher than in Chechnya. Dagestan commands 70 percent of Russia's Caspian Sea coast, and Makhachkala, its capital, is Russia's only all-weather port on the Caspian. Thus the losses in fishing and commerce would be substantial. Even more critical is the pipeline carrying oil from Baku, Azerbaijan's capital, to global markets, which traverses Dagestan before crossing Chechnya to Russia's Black Sea port of Novorossisk. Russia would lose millions of dollars annually if this pipeline did not operate reliably—something Chechnya's instability has already threatened. Russian leaders also rightly worry that an upheaval in the North Caucasus would accelerate the shift in trade from the traditional north-south axis to a new east-west axis, resulting in even closer links between the South Caucasus and the West.

Dissatisfied members of Russia's federation are rethinking their options.

Third, Russia's strategic position in the South Caucasus would be at risk should Chechnya's troubles spread. If the North Caucasus slips from Russia's grasp, Georgia and Azerbaijan, already eager to build ties with the West, would abandon Russia's orbit. Armenia, a traditional Russian ally in the South Caucasus with which Moscow has a defense treaty, would also be compelled to reorient its foreign policy,

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viewing Russia as a spent force. In addition, Russia would eventually lose its military bases in Georgia and Armenia. Emboldened by Russia's weakness, Turkey would readily step in to replace Russia as a key partner, as would Iran.

As long as Russia continues to offer little to attract other ex-Soviet states, Moscow's strategic apprehension is justified. If Russia were a prospering and democratic enterprise, regional states would seek partnership in the project, just like the European Union's neighbors want to sacrifice some sovereignty to a supranational project. But even under the best circumstances, Russia is at least half a century away from forging a new, prosperous, and voluntary commonwealth.

THE RIPPLE EFFECT

Moscow's official refrain is that what it is doing in Chechnya is nothing less than keeping the Russian Federation whole. The question remains whether Moscow's chosen methods merely delay or actually accelerate fragmentation. The Chechen conflict threatens many delicate political orders, even those in South Caucasian states. At a time when an uncertain succession to President Heydar Aliyev looms, Azerbaijan—the only majority-Muslim country in the South Caucasus—is vulnerable to ethnic and religious currents from the north, particularly if the upheaval in Chechnya fragments Dagestan: Dagestani Lezgins have long sought to unite with their kin across the border in Azerbaijan.

In Georgia, democracy has established a foothold. But there, too, the Chechen war could be disruptive, should Russia press for Georgian cooperation. Georgians believe Moscow is deliberately exacerbating the unresolved ethnic conflicts in Abkhazia and South Ossetia, both regions in Georgia. And they worry about the extent of Russia's influence in Adzharia and Javakheti, regions with strong ties to Moscow, not least because of the Russian bases located there.

Azerbaijan and Georgia share poorly guarded borders with Dagestan, and Georgia abuts Chechnya as well. Both are therefore vulnerable to refugees or guerrillas seeking safe havens and staging areas, whom neither country has the resources to repel or accommodate. Russia has warned Azerbaijan and Georgia not to let Chechen

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fighters use their territory. It has also sought Georgian consent for Russian forces to patrol and stage operations along the border.

Other parts of the Russian Federation are hardly immune to the ripple effects of the war in Chechnya. Muslim-dominated Tatarstan wisely struck a deal for autonomy with Moscow in 1994, well short of the Chechen demands for full independence. Yet Tatar nationalism is growing. In an era of globalization and porous borders, Tatarstan is no longer insulated from the growing Islamic separatist movement. Tatarstan's large Russian population and its lack of shared borders with other states make secession unlikely. But Islamist activism in the republic is growing. And the brutality of the Chechen war, hardly reassuring to Russia's other Muslims, furthers Islam's appeal. If religious and nationalist forces become more prominent in Tatarstan, they are bound to affect neighboring Bashkortostan.

MOSCOW'S DOOMED SHOWDOWN

HAVING LOST so much in blood and treasure, it is hard to imagine Chechnya willingly moving back into the Russian fold. After the 1994–96 Chechen war, Moscow could have cut its losses and accommodated de facto Chechen independence, thus staving off further instability in the North Caucasus. Instead, it chose to destabilize the weak but elected government of President Aslan Maskhadov, making it even more difficult for him to control the unruly republic. He was unable to rein in Chechnya's maverick former field commanders, Shamil Basayev and Salman Raduyev, who became warlords dedicated not just to Chechen independence but to an Islamic union in the North Caucasus. Yet even then, Moscow could have contained the 1999 insurgency in Dagestan without carrying the war any further.

The Chechen resistance will never defeat 100,000 Russian troops in a conventional battle. Instead, it hopes to draw Russian units into a protracted guerrilla war that increases both the economic costs and the number of Russians dead, thereby pressuring Moscow to withdraw. If the war drags on through the spring, the demand for a settlement will grow. The Chechens, in short, are fighting at the front but are hoping for a collapse of Russian will in the rear.

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Moscow's power is far from running its course. It can still destroy all of Chechnya's cities and towns and kill a large portion of the Chechen people. But it can never create a stable pro-Moscow government in Grozny. Most Chechens would regard a pro-Moscow regime as a collection of quislings; it would need the open-ended protection of Russian troops. Dependence on Moscow would only highlight the regime's illegitimacy and expose it to assassinations, kidnappings, and terrorism—activities likely to be carried by Chechen militants into Russia proper.

Whoever wins the Russian presidential elections will face a nearly insurmountable task in the North Caucasus. Beleaguered and unpopular local leaders on whom Russia depends will find it hard to control opponents of Moscow-friendly policies and institutions. Refugees will have to be resettled and towns and cities rebuilt in the face of tightening budgets and pressing problems elsewhere in Russia. Ethnic tensions will mount.

The Chechen war's brutality is hardly reassuring to Russia's other Muslims.

In the North Caucasian mosaic, Moscow may temporarily keep rival groups off balance. But it is only a matter of time before people realize that Russia seeks control but shirks responsibility for fundamental problems. The deeper this conviction becomes, the more desirable the alternatives will be—alignment with Turkey or even (like Armenia) with Iran. Variants of Islam or new regional associations will beckon. The precise nature of these alternatives cannot be foreseen, but all will diminish Russia's influence.

Even if Russia withdraws its forces at some point, Chechens face daunting tasks. A country that has been leveled must be rebuilt—with little hope of largesse from Moscow. Order must be restored by disarming Chechen warlords and curtailing the power of clans and regions. Social cohesion will require integrating Chechnya's powerful and pervasive Sufi religious orders, some of which have been the historical source of militant resistance to Russia. The growing reality of political Islam will also have to be faced. Above all, the yearnings of the ordinary Chechen will need to be satisfied.

Few Chechens share the vision of a North Caucasus united under a fundamentalist banner; most simply seek to survive. Yet unless

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political reform and economic progress take hold in the North Caucasus, there will be plenty of recruits for radical Islam, separatism, irredentism, and the cult of the gun. Russia chose war to bring order to the North Caucasus; in doing so, it has made an even greater disorder unavoidable.

THE WESTERN RESPONSE

BOTH RUSSIAN and Chechen fighters feel that time is on their side. Yet if war, social disintegration, and poverty dominate the region, there can be no stable peace. To make matters worse, the West lacks the means to convince either side that its calculations might be wrong. The longer the war continues, the harder it will be for Western governments to resist calls for action and argue that criticizing the Kremlin—let alone punishing it by deferring summits or denying loans—will strengthen Moscow's resolve while weakening the prospects for reform. Silence will be difficult to sustain in Western democracies, particularly in the United States during an election year. Fortunately, the European Union, which has considerable economic leverage on Russia, is already addressing the Chechen issue with a bolder voice than Washington's.

For now, it appears that the West can do little to end the bloodshed in Chechnya. But as the war raises the human and financial costs to Russia, its citizens will register their unhappiness—something they are already starting to do. Under these circumstances, Moscow will consider a settlement in which the West plays a major role. But meanwhile, the West should not tune out the Russian campaign in Chechnya for fear of offending Moscow. Doing so will damage its credibility among Chechens and reduce its diplomatic effectiveness. And the West will have done a disservice to those Russians who understand that the war is dangerous not only for Chechnya but for Russia, too.

In the Caucasus, as in the rest of the world, the West cannot routinely ignore the force of nationalist movements, which will continue to challenge empires similar to the Russian Federation. All multiethnic societies face nationalism, but not all will collapse—good governance is the key. In future years, the West will regularly

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face the question of how to respond to poorly governed and disintegrating multiethnic states that do not accommodate minorities. This is why other vulnerable states, such as China, are watching Chechnya closely. Those seeking independence cannot be dismissed as terrorists or fanatics—although these elements may well be present. Nor can the West simply accept other states' forceful measures against minority populations. Unfortunately, Moscow has made the mistake of pursuing a military solution to an inherently political problem. In doing so, it has jeopardized the country's chances for democracy and economic reform—and for joining the West by embracing the mores of the 21st century.

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The Many Faces of Modern Russia

Sam Nunn and Adam N. Stulberg

FACT OR FICTION?

FEELING CHEATED by Moscow's irregular payments and its willingness to rent out his region's storage facilities at below-market prices, the governor of a prominent Russian region resorts to "plutonium diplomacy" to demonstrate his autonomy. He unilaterally bans international shipments of nuclear waste into the region until local economic demands are met. The same governor also issues veiled threats to commandeer strategic nuclear missiles stationed in the region. Fact or fiction?

A power-hungry governor in the Russian Far East demands control of the Kurile Islands, upsetting delicate negotiations and the establishment of closer relations between Moscow and Tokyo. The same local autocrat denounces Moscow's agreements on border demarcation and strategic partnership with Beijing and instructs the local militia to intimidate Chinese traders. Fact or fiction?

The president of Russia's largest republic establishes independent commercial and diplomatic ties with both Iraq and Iran. His administration also threatens to reexamine the republic's status in the Russian Federation and to send "volunteers" to fight on the side of the Kosovars should Moscow formalize a Slavic union with Belarus and Serbia. Fact or fiction?

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In fact, each of these scenarios has already transpired. In today's Russia, power and authority are steadily devolving from the center to rest increasingly with regional leaders who are neither politically beholden to nor strategically oriented toward Moscow. Provincial players and interests now intrude into the making of foreign and security policy, once Moscow's sacrosanct domain. Russia consequently finds itself in a peculiar predicament. As a recovering great power, it has strategic interests to uphold in the international arena. But as a weak federal state, its capacities to balance national and local interests and to make credible foreign commitments are increasingly being undercut from below.

Russia's weakened federal rule and the growing assertiveness of its regional leaders present both opportunities and challenges for America's security. On the one hand, the ascendance of self-interested governors—who are intent on opening their regions to foreign investment, markets, and political cooperation—reduces the impact of the nationalism and isolationism taking root in Moscow's resentful foreign policy elite. By directly engaging the newly active local rulers on concrete issues, Americans can forge piecemeal international security and economic agreements—and circumvent Moscow's internecine politics.

Alternately, the emergence of independent actors complicates diplomatic protocol and compounds the difficulty of effectively controlling Russia's weapons of mass destruction (WMD). Unchecked regionalism and the spontaneous privatization of the Russian military jeopardize control and other security arrangements, holding them hostage to the parochial concerns of local authorities that are neither accountable for nor committed to upholding them. The potential for rogue elements in Russia to steal or sell weapons abroad, beyond the scope of Moscow's control and to the detriment of U.S. global security interests, will only be hastened by political fragmentation. Washington should therefore remember that imprudent side deals cut with Russian regional officials could recklessly violate Moscow's sovereignty and signal support for the disintegration of the federation.

The combination of weak federal authority and growing regional assertiveness in Russia creates a security environment fundamentally different from that of the Cold War. Classic notions of realpolitik and nation-state interplay are growing less and less relevant. Given this

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shifting balance of power from the center to the periphery, policymakers in Washington must rethink America's strategy for engaging Russia, based on a critical understanding of the scope, dimensions, and trajectory of the regionalism currently unfolding.

THE CENTER CAN HOLD

THE CENTRIFUGAL PRESSURES uncorked by the Soviet collapse have spread a new pragmatic regionalism across Russia. On the one hand, the leaders of Russia's 89 components (21 ethnically defined republics and 68 administrative regions) use their unrivaled popular trust and political legitimacy to carve out new relations with the center and to cultivate horizontal ties between regions, independent of Moscow. This was evident during the August 1998 economic meltdown and ensuing political crises, when regional elites used unilateral and bilateral measures to insulate local economies and cope with the federal disarray. For the more wealthy and well-endowed regions or those on borders with direct exposure to outside markets, this portends both greater confidence in dealing with Moscow and deepening foreign ties.[1]

Yet this trend toward self-sufficiency shows little evidence of unraveling into full-fledged disintegration. Notwithstanding the conflagrations in Chechnya, outright separatism elsewhere has been constrained by a constellation of centripetal forces: Russia's overwhelming ethnic homogeneity, the institutional legacy of Soviet paternalism, inter- and intraregional differences in politics and economics, personal rivalries between federal and local politicians, and Moscow's lingering authority over the national purse. The crux of regionalism in Russia now turns on issues of power sharing and on the de facto distribution of policymaking autonomy. Furthermore, the more accountable regional and municipal officials are to local constituencies, the more likely pragmatism will guide the devolution of policymaking. As this trend deepens, it should strengthen democratic norms at the subnational level. At the same time, however, it will further complicate the formulation and implementation of coherent Russian policies.

[1] Of Russia's 89 regions, 35 now share a border with at least one of 14 other countries. By contrast, the entire Soviet Union shared borders with only 12 other nations.

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BOTTOM-UP ACTIVISM

THE DEVOLUTION OF AUTHORITY in Russia can be seen in the diverse foreign and security policies championed by regional leaders. Russia's constituent parts now enjoy a range of de jure and de facto powers to interact with foreign actors. Regional elites pursue local interests either by circumventing Moscow altogether or by influencing national decisions.

With the breakup of the centrally planned Soviet system, Russia's republics and regions obtained rights to become direct parties to their own foreign relations. As stipulated by the Federation Treaty, the constituent parts of Russia are allowed to enter into agreements and treaties with foreign entities as long as they do not contradict the Russian constitution. The provinces also share responsibility with the central government for coordinating Russia's international behavior. Several regional administrations, after concluding separate bilateral agreements with Moscow, have even acquired special rights to establish their own consulates abroad and to directly conclude agreements with other countries that in practice occasionally clash with federal statutes.

According to the Federation Treaty, Russian republics can also participate independently in foreign trade and can export and import a variety of raw materials and manufactured products without obtaining permission from central ministries. The republics of Tatarstan and Bashkortostan have seized on this privilege to acquire official representation in international economic organizations independent of Moscow. Regions located in Russia's west and Far East typically exploit their proximity to foreign markets to wrangle greater autonomy in trade with neighboring regions or to levy their own tariffs on cross-border trade. Russian regions also make the most of their de jure discretion in the commercial sphere: by 1996 each region had signed an average of 20 trade agreements with foreign countries, with some cooperating with firms from more than 100 nations.

Regional administrations also have passed legislation to promote foreign investment in specific localities. Authorities in Primorski Krai and the Pskov and Sakhalin Oblasts, which already enjoy the federal status of "free economic zones," passed separate resolutions granting tax privileges and fiscal inducements to foreign investors and

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local producers. The city of Moscow and the republic of Tatarstan augmented these efforts by extending local credit guarantees on foreign investment and creating regional commercial offices in other Russian provinces, Europe, the United States, Latin America, Africa, East and Southeast Asia, and the Commonwealth of Independent States (CIS). Other regions borrow directly on international financial markets, securing rights to issue their own eurobonds. Despite this general activism, success at attracting foreign capital varies across the regions. Of all foreign investment in Russia, 90 percent has been concentrated in only ten provinces, with 70 percent gravitating to the city of Moscow alone.

Regions have also exploited foreign economic initiatives to assume greater independence. Chechnya, for instance, actively promotes the formation of a Caucasus Common Market to stimulate economic integration among the territories of the North (Russian) and South (non-Russian) Caucasus and redirect Caspian energy transit payments away from Russia. Similarly, the governor of Khakassia has announced that the republic will no longer contribute to the Russian federal budget, relying instead on its own tax base and on direct foreign economic ties to keep itself afloat.

LOCAL MOTION

ACROSS RUSSIA, regional administrations have formed local offices to conduct diplomatic relations with bordering states. Already, 55 Russian regions have forged direct political relations with Belarus. Tatarstan has representatives in more than 15 foreign countries, and 10 other regions are close behind. For many border regions, this activism takes the form of cross-border exchanges with administrative districts in neighboring states. Former Prime Minister Yevgeni Primakov called these local initiatives essential to creating the "belt of good neighborliness" and the regional interdependence critical to securing Russia's perimeter.

Some regions exploit their autonomy to pursue policies that conflict with Moscow's. The legislature of Chita Oblast, for example, undermined federal policies intended to woo foreign investment from the Chinese diaspora by passing a local law that restricts Chinese immigration into the border region. This law is part of a broader

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regional project aimed at keeping ethnic Russians in the Far East. Similarly, the defiant governor of Primorski Krai has actively subverted Moscow's attempts at reconciliation with China and Japan by hyping traditional Russian xenophobia, unilaterally reversing federal policies that permit the visa-free entry of Chinese traders, and ordering Russian patrol vessels to shoot at Japanese fishing boats that violate Russia's territorial waters.

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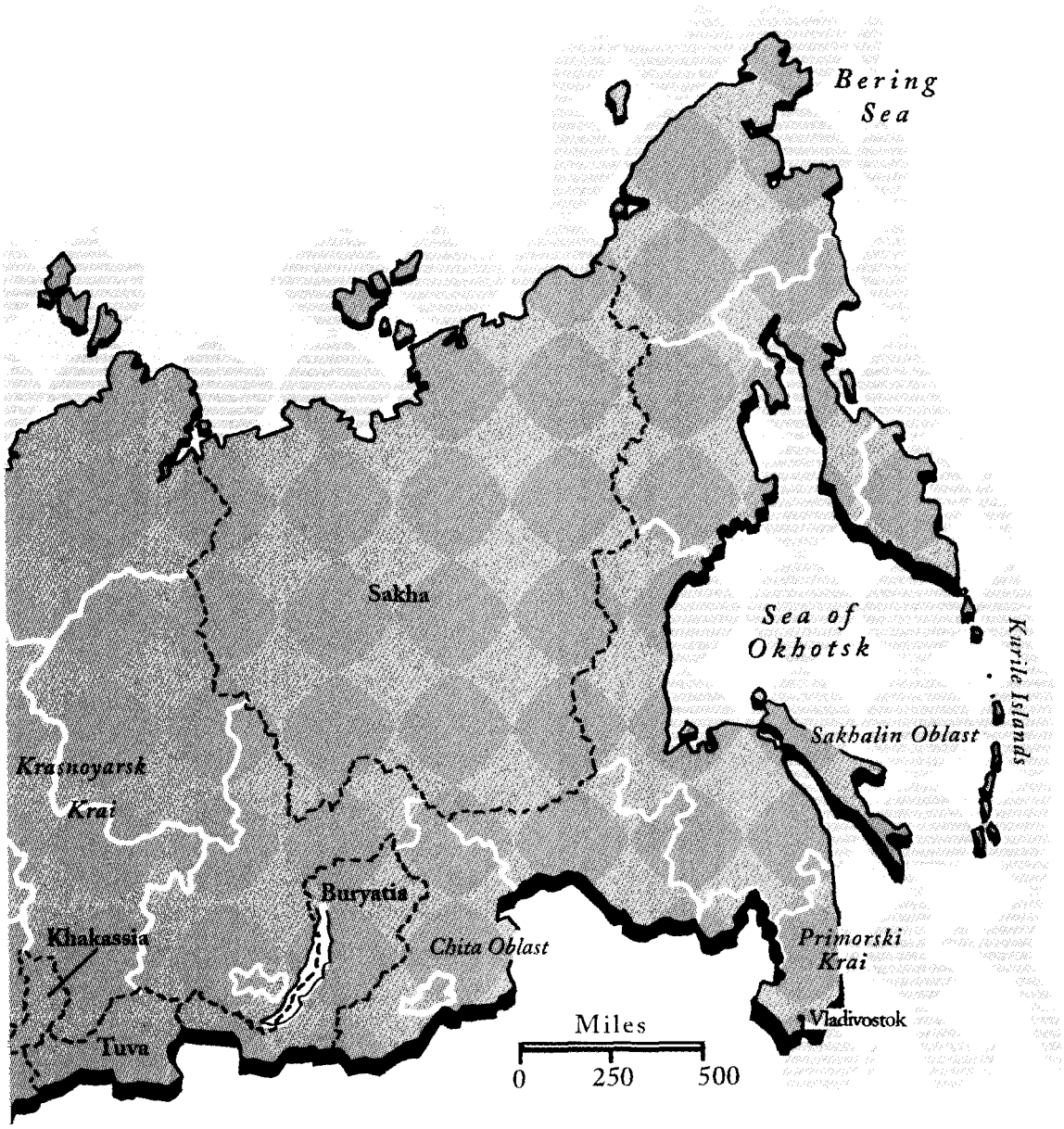

Local administrators also set the terms for policies that affect states beyond Russia's immediate borders. Tatarstan and Samara Oblast, for instance, have established direct political and cultural ties with Iran. Much to the chagrin of federal officials, some regional leaders have gone so far as to carve out independent diplomatic stands that openly contradict federal policies. For example, as part of his early posturing for a presidential run this year, Moscow Mayor Yuri Luzhkov used his

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office to renew Russian claims to the Crimean peninsula, aggravating Ukraine in the process. Chechen leaders have striven persistently to forge direct ties with other rebel movements in the South Caucasus. Similarly, representatives of Bashkortostan, Dagestan, Sakha, Tatarstan, Tuva, Khakassia, and Chuvashia took part in a 1998 international meeting of the pan-Turkic community that officially recognized the Turkish Republic of Cyprus—a decision that contradicts Russia's formal position on the island conflict and that complicates Moscow's delicate relations with both Greece and Turkey.

DEFENSE DANGERS

MEANWHILE, the devolution of authority to supervise economic affairs has increasingly left regional leaders to their own devices when trying to convert Soviet defense industries to civilian uses. With the precipitous drop in financing of the Russian defense industry since 1991, many of the social responsibilities previously assumed by these enterprises have fallen to municipal and provincial governments. Some administrations in defense-heavy regions have lobbied Moscow for procurement orders and conversion credits. Such measures typically discourage local defense enterprises from fully converting to civilian production and foster dependence on barter arrangements and the promise of illusory subsidies. Other regional administrations, by contrast, have assumed dynamic roles, creating new opportunities for conversion-related entrepreneurship. These efforts not only created a more investment-friendly environment but encouraged local defense enterprises to pursue commercially competitive nonmilitary endeavors.

More ominously, several republics have opted for greater control over local security issues by establishing their own military forces and declaring control over military assets within the region. Tatarstan recalled its citizens from areas of interethnic conflict in early 1993 and subsequently adopted legislation on military service that directly conflicted with federal statutes. Similarly, the Confederation of Caucasian Mountain Peoples decided to form its own army in 1992 and dispatched paramilitary contingents to help Abkhazia in its war against Georgia. Such assertiveness struck an especially sensitive chord in Moscow when Aleksandr Lebed, the governor of Krasnoyarsk Krai,

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chided the federal government for its lackluster commitment to military reform and threatened to assume command over those units of Russia's Strategic Rocket Forces deployed in his jurisdiction.

INDIRECT INVOLVEMENT

APART FROM pursuing separate policies, regional influence is also exerted indirectly through federal institutions. Republican and regional authorities use their seats in parliament and influence over field offices of federal agencies to infuse local interests into foreign and security policies formulated at the national level.

Nowhere is this trend more evident than in the Federation Council, which serves as the institutional hub for regional representation in the Russian national government. The council—Russia's upper house of parliament—brings together in one body the chief executives and legislative leaders from each of the country's 89 components and gives final approval to the federal budget. It also ratifies treaties signed by the executive branch after they have passed two rounds of voting in the Duma (the lower house). Neither prerogative, however, affords regional leaders much direct leverage over policy, given that the council cannot make line-item amendments to the budget and the executive branch wields extensive discretion to rule by decree. Still, as revealed by the filibusters and legislative amendments attached to the Chemical Weapons Convention during its ratification process, the Federation Council gives regional leaders an important venue to act collectively and defend local interests in the making of Russian foreign policy. Similarly, as parliamentarians, Russia's regional leaders can express their positions on foreign policy by issuing nonbinding resolutions.

The Federation Council also provides regional leaders with a strong base to bargain at the national level. Although a part-time body, the council does play an important role in tilting the balance in conflicts between the executive and the Duma. As a periodic ally of the government, the council can uphold presidential vetoes of Duma legislation. Regional leaders on the council have demonstrated their independence from the Duma by working directly with government officials in drafting the federal budget and by supporting policy initiatives, such as land reform and several production-sharing agreements, that increase foreign

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investment at the regional level. Conversely, opposition factions in the Duma need the support of council members to override executive vetoes and to block executive decrees. Moreover, the Federation Council provides regional leaders a platform to build interregional coalitions to challenge the policies adopted by either the executive branch or the Duma. This, in turn, gives governors added leverage to lobby for more or less exposure to international economic and political pressures.

Vested with these authorities, the Federation Council is poised to become an active player in Russian foreign-policy making. In the past, most governors, as presidential appointees, owed their position to Boris Yeltsin and seemed resigned to working within the parameters of the council's narrow, reactive mandate. Today, as independently elected officials, the council's members have become increasingly interested in carving out a distinct foreign policy profile. Leaders hope to turn the council into the main vehicle for engaging foreign parliamentarians on a range of commercial and diplomatic issues. Similarly, many envision the council's becoming Russia's primary forum for managing relations between the regions.

Apart from the council, regional administrations also enjoy unprecedented indirect influence over Russian security matters, due to the fragmentation of authority within the Defense Ministry. Echoing the general devolution of political power, the Ministry of Defense is transforming military district commands. According to the latest reform plan, the ministry intends to create six new military-administrative districts, each to receive much greater control over the troops deployed in its zone (excluding units of the strategic nuclear forces). At the same time, moves have been made to devolve decisions over military supply and logistics to the regional level. This reorganization could offer regional authorities practical input into decisions on the support—and ultimately, the deployment—of federal military units.

POWER AND PROLIFERATION

As regional leaders step into the vacuum created by political and economic uncertainty in Russia, they are exercising unprecedented control over Russia's foreign and security policies. This fragmentation of policymaking authority may temper the practical impact of the

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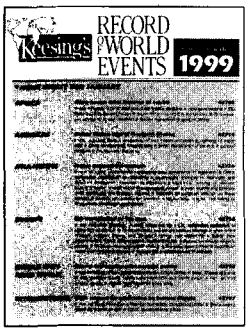

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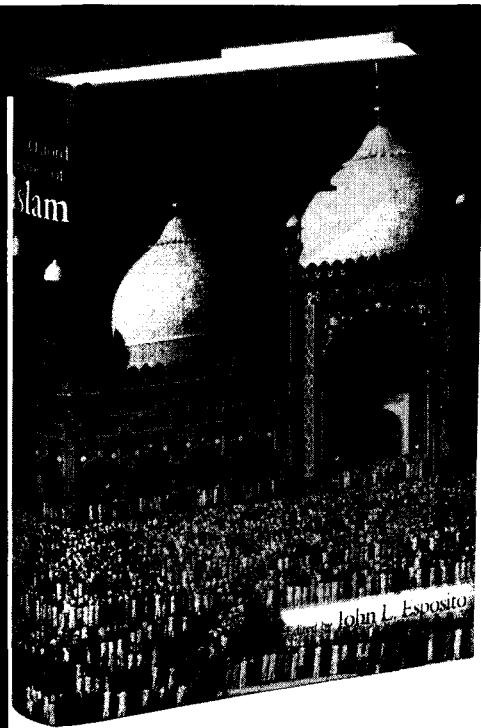

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Foreign Ministry's more assertive and independent new international strategy. Divergent regional interests diminish the geopolitical leverage Moscow derives from its alliances with Beijing and Tehran and make it less likely that the Russian government will be able to broker and sustain an anti-Western coalition in the Pacific Rim or the Middle East. Moreover, competing regional interests undermine Moscow's capacity to consolidate its influence in the CIS or to form a sphere of influence in the "near abroad." Regional assertiveness undercuts Russia's national identity and its pursuit of a uniform and credible international strategy.

Russian regionalism exacerbates NATO tensions and threatens nonproliferation.

More specifically, regionalism in Russia complicates the already thorny issue of NATO expansion. On the one hand, local independence, as in Kaliningrad Oblast, augurs well for smoother ties with the West. Although Moscow strongly opposes any change in the status of the region and has become more committed to building up strategic assets in the Kaliningrad Special Military District, local leaders remain open to converting the region into a "Special Economic Zone" to attract foreign investment and expand the region's economic cooperation with Finland, Germany, Scandinavia, and the Baltic states. Despite being on the potential frontline of NATO expansion, authorities in Kaliningrad are more opportunistic than alarmist, preferring to exploit Moscow's fears to wrangle from it political and economic autonomy.

Conversely, local assertiveness can burden relations between Russia and NATO states. For example, the aggressive administration in Pskov Oblast (in northwest Russia) threatens to exacerbate tensions between Russia and the Baltic states. At present, outstanding border disputes fester among Estonia, Latvia, and Russia over territories under Pskov's jurisdiction. Pskov exploits the foreign claims to these territories to excite nationalist sentiments among the local electorate and divert attention from social and economic problems. By playing the nationalist card, Pskov hardens Moscow's resistance to NATO enlargement while pressuring the Baltic states to defend their territorial claims—thereby pushing them further into NATO's arms.

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The emergence of independent-minded regions also compounds the difficulty of nonproliferation. Despite the accomplishments of the Nunn-Lugar program and associated WMD dismantlement programs, American contractors and Russian aid recipients persistently complain of obstacles imposed by rent-seeking municipal and regional administrators. Typically excluded as direct parties to assistance packages, regional leaders often intervene indirectly to levy discretionary tariffs as tribute for the use of their infrastructure in WMD dismantlement. Several regional administrations have unilaterally imposed prohibitive transportation taxes that have retarded the transfer of dismantled fissile materials to safe storage depots. Other local authorities have held progress virtually hostage to their demands by occasionally cutting off the power supply to specific dismantlement and storage facilities. Similarly, regional authorities have impeded Russian chemical weapons disarmament by continuing to press for greater financial benefits and oversight responsibilities in return for accepting the construction and operation of destruction facilities. The regions where chemical weapons are stockpiled and will have to be destroyed have been especially active in mobilizing grassroots environmental movements to protest the federal dismantlement program. Such measures undermine Moscow's capacity to uphold the Chemical Weapons Convention.

The development of more effective export-control mechanisms has also been complicated by regionalism. Although some positive developments have been seen recently at the federal level (including the streamlining of administrative procedures and the crackdown on Russian firms implicated for illicit missile-related exports), practical problems persist. A potential gap in the reforms rests with the lack of oversight over the growing formal and practical roles played by local export-control agencies. To date, the state arms-export agency, Rosvooruzhenie, maintains regional affiliates in Nizhni Novgorod and Tatarstan that are charged with supervising all marketing and contracting operations involving dual-use and conventional arms exports. Similarly, the former Ministry of Foreign Economic Ties established local affiliates throughout the provinces to facilitate licensing. Although these regional offices are formally subordinate to their parent agencies in Moscow, in practice they work closely with local leaders. Although there is no evidence to suggest that regional leaders encourage

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unrestricted proliferation any more than do federal authorities, local offices have stronger incentives to promote commercial activities, including arms exports, that would aid local defense firms. Given the repeated indictments of Rosvooruzhenie officials on corruption charges and the lack of oversight within the federal customs and border-control agencies, the immunity of export-control field offices to local commercial and political co-optation cannot be taken for granted. The likelihood of such corruption will only increase with Tatarstan's campaign to establish direct commercial ties with both Iraq and Iran—despite Moscow's international commitments to abide by the U.N. embargo against Baghdad and to limit WMD exports to Tehran. These factors, combined with the uneven distribution of equipment and trained personnel for monitoring illicit WMD trade and the devolution of visa-issuing authority to regional offices, increase the opportunities for sensitive defense technologies and expertise to pass across Russian borders.

Regional control has likewise intruded into the realm of energy development in the Caspian region. Astrakhan Oblast, for example, has balked at the Russian Foreign Ministry's repeated attempts to exploit environmental concerns and ambiguous legal norms to restrict international energy development in the region. It has tried instead to nurture political ties with prominent Russian energy companies and to attract foreign investment to revive local rig-building, port expansion, and pipe-laying. Similarly, Tatarstan and the city of Moscow have supported oil-extraction projects, participating as independent actors in tenders to develop offshore deposits. These initiatives have helped recently to tilt the balance in the Caspian energy sweepstakes away from the nationalism that initially prevailed in Moscow.

Encouraging pragmatism in Russia's policy, however, is only one implication of regional assertiveness. Another is the added difficulty of implementing international energy agreements. While those regions that stand to benefit directly from resource extraction in the Caspian basin promote open tenders and multiple pipeline routes, those whose territory will be traversed by prospective pipelines tend, paradoxically, to obstruct progress. Transit regions look to pipeline projects for immediate salvation, imposing discretionary tariffs above

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and beyond the fees negotiated by Russian federal authorities. Some regions have gone so far as to demand that foreign energy companies pay for "auxiliary" infrastructure projects and local schools in return for laying pipelines across their territories. In the volatile North Caucasus, political and ethnic leaders have threatened to hold Caspian pipelines hostage to successive campaigns for greater or lesser autonomy from Moscow, embroiling local energy projects in dangerous clan conflicts and corruption rackets. In Chechnya, opposition groups have threatened the pipelines that bypass the breakaway republic to extort international support for their cause. As a consequence, the intrusion of local politics into the international competition for Caspian energy development complicates the prospects for realizing otherwise promising international energy contracts, and in some cases, risks inflaming interregional ethnic and political conflicts.

THINK STRATEGICALLY, ACT REGIONALLY

THE UNITED STATES should reassess its strategy for engaging today's Russia. Amid the uncertain political and economic transformation still under way, Russia's federal center is losing the power to formulate and implement credible policies. Although the likelihood of Russia's disintegration seems small, Moscow's control over Russia's national security agenda has clearly slipped. As a consequence, Washington should no longer think in terms of one centrally controlled Russian government. Rather, Washington's strategic calculus should include all the independent players in the Russian Federation.

To this end, U.S. policies should engage both Moscow and the provinces on issues of mutual strategic concern. Washington must capitalize on the opportunities presented by the emergence of autonomous regional actors. But U.S. regional initiatives must not infringe on the federal government's sovereignty by overtly playing off differences among its constituent parts. Because uncontained regionalism complicates the U.S.-Russian security agenda, Washington should engage both Moscow and Russia's provinces in a manner that enhances oversight, responsibility, and pragmatism in Russian foreign-policy making.

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In recognition of the de jure and de facto power of regional leaders to facilitate or subvert Russia's international commitments, the United States should reach out directly to the provinces on selected issues. Clearly, Russia's regions do not want to perpetuate global security problems such as WMD proliferation or criminal and drug syndicates. Many provinces openly look forward to integration into international economic and security regimes. Typically absent, however, are outlets to realize these interests. Given the enfeeblement of the Russian government and the distorted incentives generated by its weakness, the best way for the United States to promote shared interests with Russian regional leaders is to engage them directly. By including them in bilateral and multilateral nonproliferation and commercial dialogues, officials in both Washington and Moscow could foster local accountability. Excluding affected regional policymakers only alienates the domestic support necessary for realizing international agreements and leaves local authorities with little stake in the matter. This process of inclusion could begin by encouraging the creation of transnational economic and security mechanisms that bring together neighboring states in Europe and Asia.

When the West excludes regional leaders, it alienates domestic support.

At the same time, the United States should be sensitive to Russian federal interests when collaborating with regions on security matters—particularly where local authorities are pushing the envelope of their autonomy. Conducting negotiations under the auspices of the Federation Council would be one way to engage both regional and federal actors. Another tactic would be to include representatives from relevant federal agencies in direct dialogues with regional officials. In any case, the United States should make extra efforts to respect diplomatic protocol for receiving regional leaders as constituent members of the Russian Federation.

Sanctions and inducements have become increasingly important but controversial instruments of America's strategy on issues such as nonproliferation, Caspian energy development, and international law enforcement. Washington must refine the Russian targets of its policies. Current efforts reward or punish the Russian federal

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government for the behavior of subnational actors that are, in practice, beyond its reach. These policies do not work and are increasingly counterproductive. To directly alter the behavior of relevant offenders and to strengthen those who support cooperation with the United States, Washington should target sanctions and inducements to specific regional authorities and firms. In the area of nonproliferation, the United States should build on the spirit of the "Nuclear Cities Initiative" by working actively with Russian federal and regional authorities to fund auxiliary projects directly related to the construction of local WMD dismantlement facilities. Cooperative assistance should also be targeted at retraining local personnel and renewing regional infrastructure, so that ventures related to defense conversion can become self-sustaining. Direct regional inducements should reduce the impact of weak or corrupt federal institutions while bolstering responsiveness to U.S. offers and demands.

Consistent with this broadening of U.S. diplomatic efforts, Washington should reexamine its traditional approach to what is known as issue linkage—the exchange of concessions across different issues. Few credible or capable national mechanisms exist in Russia to coordinate the complex tradeoffs necessary to practice such issue linkage. Wielding independent and at times competing policymaking authorities, Russian regional leaders are becoming less responsive to each other's actions. As a consequence, individual regional administrations lack incentives to incur the costs of upholding a concession to the United States while another region reaps the benefits. Washington should learn to link carrots and sticks to issues that either fall within the jurisdiction of a single region or can be used as springboards for interregional cooperation.

Law enforcement and the development of effective export controls in Russia have been stymied by shortages of political will and technical expertise. To date, most of Washington's attention has correctly been placed on redressing problems at the federal level. Serious problems, however, persist outside of Moscow. Regional administrations and field offices lack the proper federal oversight or political incentives to uphold stringent controls. Combined with the paltry and uneven distribution of training and equipment for monitoring illicit WMD trade, these problems create weak links in Russia's

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nonproliferation effort. This undermines Russia's treaty adherence and increases the likelihood that sensitive weapons expertise and technologies will escape.

GETTING ENGAGED

TO REDRESS THESE PROBLEMS at the regional level, Washington should adopt a two-pronged approach. First, the United States should channel technical assistance directly to regional administrations and local field offices involved in export control and law enforcement. Specific attention should be paid to customs offices in regions that border other post-Soviet states. Second, Washington should encourage the creation of locally based nongovernmental organizations (NGOs) to shore up regional political accountability and commitments to international nonproliferation standards. In an era of weak government institutions, NGOs can act as important checks on the abuses of local authorities and help build stronger civic responsibility. Moreover, local NGOs can educate local populations about the dangers of unrestricted WMD proliferation and the importance of domestic preparedness in the event of a terrorist attack. In partnership with U.S.-based NGOs (such as the Center for Nonproliferation Studies at the Monterey Institute of International Studies), these grassroots organizations could cultivate a culture of WMD safety and nonproliferation that would help to redress problems at their source. Locally based NGOs could also direct regional outreach programs to address legitimate local concerns about the public-health, environmental, and socio-economic effects of WMD destruction, dismantlement, and storage.

As for Western financial- and technical-assistance programs, these should reflect a greater appreciation of the concerns of those Russian regional administrators bearing the brunt of Russia's social and economic hardships. The United States should use its influence to promote trade and investment at the regional level. Special attention should be placed on encouraging American firms to cultivate relations with political authorities and managers in defense-heavy regions that might otherwise seek partners in rogue states and terrorist groups. To help broaden and deepen defense conversion in Russia, the U.S. government should also encourage European and Japanese initiatives

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to develop projects in closed cities and neighboring regions. These programs would enable market pressures to reach the local level, facilitating the free movement of surplus labor and capital, both within and across regions, to meet new commercial demands. Such business activity would provide direct national security benefits for the United States, since Russian regions dependent on Western markets would be less inclined to promote arms sales and will have greater stakes in avoiding direct challenges to American national interests.

With bilateral relations between the United States and Russia at their lowest ebb since the Soviet collapse and with the onset of federal elections in both countries, the policy communities in Washington and Moscow must reach out to new groups and eschew exclusive association with incumbents. Creative approaches are desperately needed to build good will and broaden the constituencies for cooperative engagement. Washington must rethink its Russia policy from the ground up. A new, coherent approach—one that forges long-term links with central, regional, and private agencies and businesses while preserving Moscow's authority—would place cooperative security with Russia on sure footing, better insulated from political games in both capitals. Moreover, such sensitivity to the dynamics of Russian regionalism will deepen the federation's integration into international security and economic regimes, while minimizing the dangers posed by today's rough-and-tumble Russian politics.

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Two Cheers for Clinton's Foreign Policy

Stephen M. Walt

UNDER THE CIRCUMSTANCES

"IT'S THE ECONOMY, STUPID." Back in the 1992 campaign, that one line told us that Bill Clinton did not intend to be a great foreign policy president. As his second term ends, most pundits agree that this is one promise he has kept. Critics on the right argue that he is too eager to accommodate a rising China, too blind to Russia's corruption and cronyism, and too slow to use force against states like Yugoslavia or Iraq. On the left, liberals bemoan Clinton's failure to prevent the genocide in Rwanda, his tardy response to the bloodletting in the Balkans, and his abandonment of his early pledge to build a multilateral world order grounded in stronger international institutions. Even pragmatic centrists find him wanting, deriding his foreign policy as "social work" that is too easily swayed by ethnic lobbies, public opinion polls, and media buzz.

There is some truth in all these charges, but the indictment should be qualified in several respects. As with any president, it is easy to think up ways that Clinton's record might be improved. But on the whole, he does not deserve the chorus of criticism he has received. Clinton's critics fail to appreciate how changes in the international position of the United States have complicated the making of its foreign policy. The next president will face similar pressures and is likely to adopt similar policies—but is unlikely to achieve significantly better results. Clinton's handling of foreign policy also

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tells us a great deal about what to expect in the future, regardless of what happens in November.

THE HALF-HEARTED HEGEMON

BILL CLINTON has had to face a world vastly different from the one his predecessors knew. The end of the Cold War has left the United States in a position of unprecedented preponderance. America's economy is 40 percent larger than that of its nearest rival, and its defense spending equals that of the next six countries combined. Four of these six countries are close U.S. allies, so America's advantage is even larger than these figures suggest. The United States leads the world in higher education, scientific research, and advanced technology (especially information technologies), which will make it hard for other states to catch up quickly. This extraordinary position of power will endure well into this century.

America's unrivaled strategic position has several important but paradoxical implications for the conduct of foreign policy. First, U.S. preponderance gives it tremendous freedom of action. Because the United States is so secure and has such a large surplus of economic and military power, its leaders can pursue objectives that no other state would contemplate. This situation stands in marked contrast to the Cold War, when the Soviet threat gave U.S. leaders a clear set of priorities and imposed discipline on the conduct of foreign policy. But with the Soviet Union gone, U.S. leaders can pursue a wide range of goals without worrying very much about how others will respond.

Of course, if the United States throws its weight around too often, other states will question the desirability of U.S. leadership and look for opportunities to undermine it. Such tendencies are already visible in Russia and China, but even traditional U.S. allies like France and Germany would like to keep a tighter grip on Uncle Sam's leash. But efforts to balance U.S. power have been remarkably muted thus far, largely because the United States is far from the other major powers and does not threaten them physically. In the short term, therefore, the United States faces few external constraints.

Second, America's favorable position also means there is less to be gained on the international stage. The United States is already the

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dominant power; it has no serious enemies in its own hemisphere; and its most obvious adversaries—Iraq, North Korea, and Yugoslavia, for instance—are weak, impoverished, and isolated. American ideals of free markets and individual rights are more widely accepted than ever. Although any number of problems merit U.S. attention, America simply does not face the sort of imminent geopolitical challenge it often faced in the twentieth century. Thus the central paradox of unipolarity: the United States enjoys enormous influence but has little idea what to do with its power or even how much effort it should expend.

Third, America's preponderance has caused most of it citizens to lose interest in foreign affairs. In a 1998 survey by the Chicago Council on Foreign Relations that asked Americans to name "two or three problems facing the country today," foreign policy issues did not even make the list. When asked to identify "two or three foreign policy problems facing the nation," the most common response (21 percent) was "don't know." Support for military spending, foreign aid, and multilateral institutions like the United Nations and the World Bank has declined steadily throughout the 1990s; even the familiar U.S. commitments to NATO, Taiwan, and South Korea receive less support than at any time in recent memory. Fewer than half of U.S. citizens favor the use of ground troops should Iraq invade Saudi Arabia. Other familiar causes for using U.S. troops—such as an attack on Israel or a North Korean invasion of South Korea—have even less backing. These statistics do not, of course, tell us what U.S. leaders would actually do in a crisis, but the erosion of public support for an activist foreign policy is striking.

U.S. preponderance and the state of public opinion are inextricably linked. Americans are not interested in foreign policy because they recognize how favorable the current situation is. So they elected a president who promised to spend less time on the phone with foreign leaders and more time on domestic issues, and they elected a Congress whose disdain for foreign affairs is almost gleeful. Two-thirds of the Republicans elected to Congress in 1994 reportedly did not possess passports, and Majority Leader Richard Armey (R-Tex.) has proudly declared that he has no need to visit Europe because he has "already been there once." This nativist Congress has cut the budget allocation for international affairs, tried to sanction foreign firms trading with

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Cuba, held U.N. dues hostage to extremist views on family planning, and dragged its heels in financing key U.S. commitments to the International Monetary Fund (IMF) and the Middle East peace process.

Finally, the declining interest in foreign affairs increases the relative weight of special interest groups, especially those with narrow and extremist agendas. Without a major threat to focus the national mind, any president will face more powerful pressure from groups with strong, focused positions. Catering to narrow interest groups will gain their support without alienating the rest of the electorate (which is largely indifferent) or incurring immediate foreign policy consequences. In the absence of a clear and present danger, partisan politics intrudes more heavily in the conduct of foreign affairs—because using foreign policy to bash one's rivals doesn't place the nation in immediate danger.

Americans elected a Congress whose disdain for foreign affairs is almost gleeful.

Thus, the problems that Clinton's critics emphasize are not solely attributable to his disinterest in foreign affairs, the misguided views of his advisers, a disorganized policy process, or a failure to set clear priorities. Rather, they stem from America's unusual international position and the political incentives this position reinforces. Nor should we forget that Clinton began his presidency with a weak mandate and delicate relations with the military. He has had to grapple with a Republican Congress that is increasingly partisan, openly skeptical of many international institutions, wary of new commitments, and wedded to strategic chimeras such as national missile defense (NMD). Any president would have found it difficult to conduct foreign policy under these conditions. It is against this background that Clinton's performance should be judged.

Four goals have dominated the Clinton administration's foreign policy. First, the administration has sought to dampen security competition and reduce the risk of major war in Europe, East Asia, and the Middle East, largely by remaining militarily engaged in each of these regions. Second, the administration has worked to reduce the threat of weapons of mass destruction (WMD). Third, it has tried to foster a more open and productive world economy, which it correctly sees

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as an important component of U.S. economic prosperity. Fourth, the administration has tried to build a world order compatible with basic American values by encouraging the growth of democracy and by using military force against major human rights abuses.

These goals are hardly controversial. Indeed, they are virtually identical to the foreign policy priorities of Republican frontrunner George W. Bush. Furthermore, an administration that made significant progress on most, if not all, of these goals would normally be regarded as successful, particularly if it had to overcome major obstacles to achieve them. With that standard in mind, how well has Clinton done?

ENGAGING THE WORLD

THE UNITED STATES has an enduring interest in peace, because a major global conflict would threaten its preeminence. The Clinton administration's preferred strategy for preserving peace has been to keep the American pacifier in Europe and Asia while maintaining cordial relations with other great powers and supporting regional peace efforts where appropriate. This strategy rests on the belief that America's forward military presence is still the most reliable barrier against renewed great-power rivalries. But since public support for this policy is fragile, Clinton has limited America's direct role and encouraged key allies to bear a heavier burden. Despite many obstacles, the administration has pursued this strategy effectively.

In Europe, the Clinton administration has held NATO together despite growing centrifugal tendencies and intense policy disputes. Clinton has forcefully reiterated the U.S. commitment to Europe, and his foreign policy team masterfully orchestrated NATO's expansion into Poland, Hungary, and the Czech Republic. The strategic wisdom of this step is arguable, but it was extremely popular in Europe and bolstered support for NATO back home. The administration also guided NATO through its military interventions in Bosnia and Kosovo, despite numerous interalliance disputes.

These achievements are especially impressive considering how much harder it is now to keep the alliance together. During the Cold War, NATO stayed intact largely because the alliance did not actually

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have to do anything as long as its members were not attacked. But since 1991, NATO has assumed the broader responsibility of guaranteeing peace and security throughout Europe. Now when violence erupts in places such as Bosnia or Kosovo, NATO cannot remain aloof without casting doubt on its own credibility. Compelling NATO to act in such circumstances, however, forces the alliance to develop a common approach to problems for which there is rarely an obvious solution. Thus, not only is NATO busier now than in the past, it is acting in situations where consensus will be very difficult to achieve.

Second, the end of the Cold War removed the principal glue binding Europe and America, which inevitably raises doubts about the depth and durability of the U.S. commitment. Fully aware that Americans are reluctant to fight and die for Europe, Clinton has tried to shift more responsibility to U.S. allies and commit U.S. ground troops only when Europeans clearly cannot handle the job themselves. Thus, the administration initially wanted to rely solely on airpower in Bosnia, despite strong British and French opposition, and it indirectly supported Croatia and the Bosnian Muslims to convince the Serbs to negotiate. The United States did take the lead in negotiating and implementing the 1995 Dayton agreement, but it reduced its military presence in Bosnia faster than its NATO allies did.

Similarly, the United States led the air campaign in Kosovo but has let the U.N. and Europeans handle much of the burden of peacekeeping and reconstruction. Given the American public's reluctance to take on ambitious foreign policy goals and the potential calamity of an intervention gone awry, Clinton's approach was both prudent and appropriate.

In Europe, the administration has struck a delicate balance between doing too much and not doing enough. Doing too much encourages Europeans to "free ride" and jeopardizes American support; doing too little makes Europeans doubt U.S. credibility and fuels their desire to possess a more potent military capability. Many Europeans are clearly tiring of their dependence on America and are also worried about U.S. credibility, which explains their renewed effort to forge a more formidable defense capability. But this is hardly Clinton's fault. Rather, it reflects the growing worldwide recognition that Europe should handle most of its own regional security problems without calling for American assistance—and the growing sense that this would leave both parties better off.

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Clinton's handling of the major Asian powers deserves high marks as well. As in Europe, the administration's overarching goal has been to maintain its existing alliance commitments in Asia and preserve its forward military presence. A cornerstone of this effort was the reaffirmation of the U.S.-Japan security treaty in April 1995, which defused Japanese concerns about the U.S. military presence and offered a powerful symbol of America's continued engagement in Asia.

Despite a rocky start, Clinton's China policy has been an effective combination of engagement and deterrence. The administration took office committed to pressing China on its human rights record. But it soon learned that a confrontational approach did little for human rights and, instead, threatened the entire U.S.-Chinese relationship. Since then, Clinton has sought to keep China's emergence as a major power from undermining key U.S. interests—without creating a counterproductive spiral of growing hostility. Accordingly, the United States has sought to emphasize the benefits of cooperation by renewing China's "most favored nation" trading status and supporting—after faltering once—China's entry into the World Trade Organization (WTO). At the same time, it has tried to emphasize the costs of confrontation—as during the deployment of two U.S. carrier battle groups following China's misguided attempt to use long-range missile tests and military maneuvers to intimidate Taiwan.

Clinton's handling of the major Asian powers deserves high marks.

This strategy has worked well. Clinton has done nothing to appease China and much to provoke it, yet bilateral relations have not deteriorated significantly. Since 1993, the United States has renewed its defense ties with Japan, permitted Taiwanese President Lee Teng-hui to make a controversial visit to Cornell University, engaged in an overheated, intensely partisan debate about Chinese nuclear espionage, and bombed the Chinese embassy in Belgrade. Yet Beijing's responses have been largely symbolic. Clinton even managed to get Chinese approval to send a new U.S. ambassador to Beijing and convinced China to agree to America's WTO-entry terms. On balance, therefore, Clinton got China just about right. And although the Republicans have repeatedly condemned the president's China policy, George W. Bush's stated views on China are very similar to Clinton's.

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In terms of great power politics, the most serious blemish in Clinton's record is America's deteriorating relationship with Russia. By almost any measure, conditions within Russia and the state of U.S.-Russian relations have declined significantly during Clinton's presidency. Corruption and bureaucratic thievery have decimated the Russian economy and slowed the emergence of liberal institutions, while anti-Western sentiment has been fueled by NATO expansion, the gradual American assault on the Anti-Ballistic Missile Treaty, and U.S. indifference to Russian interests in the Balkans, the Caucasus, and the Caspian basin. These policies lead critics to charge that Clinton has focused on minor areas and issues at the expense of more pressing strategic problems, thus squandering the opportunity to establish a lasting, cooperative relationship with a former rival.

There is considerable truth to these accusations, but they ignore several mitigating factors. First, Clinton is hardly to blame for the slow pace of Russia's democratization or its continued economic difficulties; that responsibility lies primarily with the Russians themselves. The United States and its allies could probably have done more to hasten Russia's transition. But the real missed opportunity was America's failure to support large-scale privatization in 1991–92, when reformers were ascendant in Russia—and George Bush was president. Moreover, Clinton can take credit for establishing a good relationship with former Russian President Boris Yeltsin and for helping him defeat reactionary challengers in the 1996 election. Yeltsin was hardly an ideal leader—as his vanishing popularity showed—but he was far better than the alternatives that Clinton's policies helped avert.

Furthermore, in the most recent Russian election, voters expressed a greater commitment to democracy and an eagerness to emulate Western-style institutions—a major achievement after 1,000 years of autocracy and more than 70 years of communist dictatorship. Russia's transition has been slower than was hoped for, but the trends are in the right direction. And U.S. policy has helped.

Second, although relations between Moscow and Washington have deteriorated over the past seven years, they hardly constitute a "new Cold War." Joint efforts to control Russia's nuclear materials continue, Russian troops are supporting NATO forces in Bosnia, and

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Russia eventually helped end the Kosovo war last year. Even though Clinton has damaged U.S.-Russian relations, he has tried to limit this damage through diplomatic gestures such as the NATO-Russian Founding Act and by muting U.S. criticism of Russia's heavy-handed military campaign in Chechnya.

U.S. policy toward Russia illustrates the temptations and pressures that have shaped Clinton's entire tenure. Because the United States has been so strong and Russia so weak, Clinton has been able to ignore Russian sensitivities whenever doing so brought immediate political benefits. NATO expansion shored up the alliance in Europe and appealed to ethnic voters back home, and Clinton's commitment to missile defense proved that Democrats were not lax on defense. Because Russia could do little to resist either of these initiatives, short-term political calculations won out over long-term strategies.

Finally, Clinton's policy of engagement helped advance the search for peace in Northern Ireland and the Middle East. Progress has been slower than ideal, but the situations in both areas are substantially better than they were when Clinton took office. U.S. mediation played a key role in keeping each peace process on track, and the administration deserves some credit for the progress that has been made. U.S. engagement has helped keep the peace in Europe and Asia and has helped build peace in Northern Ireland and the Middle East. This is not a record that requires an apology.

AVOIDING DOOMSDAY

LIKE ITS PREDECESSORS, the Clinton administration has sought to reduce the threat of WMD, a goal that enjoys widespread public support and is clearly in the U.S. national interest. Although not perfect, the administration's record is positive considering the heavy domestic opposition. First, Clinton's team successfully persuaded Ukraine, Belarus, and Kazakhstan to give up the nuclear arsenals they inherited from the former Soviet Union. It also placed Russia's nuclear materials under more reliable control. Much remains to be done, but greater progress was thwarted partly by counterproductive congressional restrictions, Congress' reluctance to authorize additional funds, and the chaotic conditions in Russia.

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A second achievement was the successful ratification of the Chemical Weapons Convention, which prohibits the development, production, acquisition, stockpiling, transfer, and use of chemical weapons. The treaty was signed in the closing days of the Bush administration, and Clinton submitted it for Senate ratification in November 1993. He finally prevailed in April 1997, after a sustained effort to overcome conservative opposition. Russia followed suit soon after, thereby taking on the obligation to destroy the world's largest chemical weapons arsenal by 2007. Given America's conventional military superiority, eliminating chemical weapons is very much in the U.S. national interest, so the administration deserves credit for this achievement.

Hard-liners fault Clinton for his handling of North Korea, but they have yet to offer a better plan.

A more controversial and revealing accomplishment was the protracted effort to dissuade North Korea from acquiring nuclear weapons. After consideration of a preemptive strike against North Korea's nuclear facilities in 1994, cooler heads prevailed, and the administration eventually crafted a diplomatic solution. North Korea agreed to cease plutonium production at the Yongbyon research reactor, and the United States, Japan, and South Korea agreed—under appropriate international safeguards—to provide North Korea with two light-water reactors for its power needs. Hard-liners have criticized Clinton for rewarding North Korea's defiance of the nonproliferation regime, but they have yet to offer an alternate policy that would have achieved as much with as little. A preemptive air strike might well not eliminate North Korea's nuclear capability. Moreover, both South Korea and Japan opposed the use of force. South Korea was especially worried that a preemptive strike would spark a destructive ground war. Given these constraints, the situation called for flexibility, persistence, and creativity; the administration displayed them all. Without the 1994 Agreed Framework, North Korea would almost certainly have obtained enough fissile material for a sizable number of nuclear bombs. Heading off such a destabilizing development was clearly in the U.S. interest. The administration recently followed up with a new initiative designed to discourage North Korean missile development and ensure that it remains nuclear-free.

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Given the limited array of options and the potential for disaster, Clinton's handling of North Korea is an impressive diplomatic achievement.

Clinton's efforts to reduce the danger of WMD, unfortunately, have not been entirely successful. He failed to convince the Senate to ratify the Comprehensive Test Ban Treaty (CTBT) in October 1999. This step undermined the long-standing U.S. effort to slow nuclear proliferation, reinforced foreign concerns about American unilateralism, and made it easier for China, India, and other nascent nuclear powers to develop weapons as sophisticated as America's. Clinton and the Senate Democrats deserve some blame for mishandling the issue, but the principal culprits are the Senate Republicans, who sacrificed an important foreign policy issue on the altar of partisan politics.

The administration also failed to dissuade India and Pakistan from testing nuclear weapons in the spring of 1998. And Clinton did not prevent the collapse of the U.N. Special Commission's (UNSCOM) weapons inspections in Iraq. Yet it is hard to see how the United States could have forestalled either development. India and Pakistan have been moving toward nuclear testing for decades, and U.S. leverage over both countries was limited. The same is true in Iraq: neither economic sanctions nor repeated U.S. air strikes have had much effect on Iraqi behavior in the past, and U.S. efforts to compel Iraqi compliance gradually undermined international support for the entire policy. Nonetheless, UNSCOM was not a total failure. It dismantled much of Iraq's WMD capability and hindered its efforts to reconstitute its military arsenal. But it was never a workable long-term solution to Iraq's military ambitions, and Clinton should not be blamed for its demise.

Clinton can also be criticized for conceding to Republican pressure over NMD. In particular, Clinton's decision to sign the National Missile Defense Act of 1999—which commits the United States to deploy such a defense "as soon as it is technologically possible"—exemplifies the president's political suppleness and shows how U.S. preponderance empowers extremist thinkers at home. Although even a limited deployment could fuel an arms race with China, derail efforts to reduce the Russian nuclear arsenal, and poison relations with key U.S. allies, Clinton chose to compromise largely to avoid being accused of softness on defense. Clinton's policy was neither courageous nor farsighted, but it was precisely the sort of decision that the political environment encouraged.

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Despite its scattershot record on WMD, the administration's instincts have been correct, and many of its policies have reduced the direct threat of WMD to the United States. Its principal mistakes have come in response to partisan pressure at home, which reflects an inability to control the national debate on issues like the CTBT or missile defense.

A LIBERAL WORLD ECONOMY

CLINTON TOOK OFFICE vowing to focus "like a laser beam" on the economy, and even his sternest critics must concede that the U.S. economy has boomed during his tenure. Clinton's economic strategy included an intense effort to lower trade and investment barriers, which he pursued vigorously despite considerable opposition from his own party. His specific achievements include the passage of the North American Free Trade Agreement, the completion of the Uruguay Round of trade talks, and a host of bilateral trade agreements. The results speak for themselves: despite the negative effects of the Asian financial crisis, expanding exports accounted for more than 20 percent of U.S. GDP growth from 1992 to 1999.

Clinton's economic team also skillfully handled the Mexican peso crisis in 1994. When Congress balked at funding a support package to Mexico, Clinton used his executive authority to take money from the Exchange Stabilization Fund (ESF). In bypassing Congress, Clinton staved off a potentially ruinous collapse of the Mexican economy—and at no cost to U.S. taxpayers.

Once again, Clinton's team managed a key element of foreign policy despite a marked absence of political backing. Congress consistently denied Clinton the "fast-track" authority to conduct trade negotiations (an authority granted to every president since Richard Nixon), and it retaliated against Clinton's handling of the peso crisis by placing new restrictions on the ESF. These restrictions made it far more difficult for the administration to react quickly when the Asian financial crisis hit. Republicans further impeded efforts to respond to the crisis by dragging their heels on the administration's request for additional IMF funding.

Domestic politics also played into the administration's most important errors in foreign economic policy. The first mistake was

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the Clinton administration's rejection of China's April 1999 offer to enter the WTO. Clinton dropped the deal because he feared congressional opposition, although he later reconsidered and was able to resurrect the agreement in November 1999. The second blunder occurred at the ill-fated Seattle WTO summit last December, where Clinton sought to appease a variety of domestic interest groups by calling for strengthened labor standards, possibly enforced by trade restrictions. This initiative clearly departed from the administration's earlier commitment to trade liberalization, reinforcing global concerns about U.S. unilateralism. The failure in Seattle is unlikely to derail the long-term trend toward global economic integration, but it was hardly the administration's finest moment. Despite a marked lack of congressional support and Clinton's own willingness to pander to domestic forces, however, the president's economic record is one his successor is likely to emulate and certain to envy.

HUMAN RIGHTS WATCH

ANOTHER EARLY PROMISE of the Clinton administration was to focus on human rights and rely more on multilateral institutions, such as the United Nations. Humanitarian operations have indeed been a prominent element of Clinton's foreign policy—most notably in Bosnia and Kosovo—and his rhetorical commitment to these goals remains strong. It is therefore ironic that his performance here is probably weaker than in any other realm of foreign policy.

On the positive side, the administration can claim several clear human rights successes. According to Freedom House, the level of freedom worldwide has expanded significantly during Clinton's presidency, and the number of states where human rights and civil liberties are respected has reached its highest level ever. Although Clinton can hardly claim full credit for this trend, his willingness to keep humanitarian issues in the public eye helped reinforce the growing global norm limiting what sovereign governments can do to their own citizens.

Clinton also deserves praise for his handling of the 1994 crisis in Haiti. Although he was criticized for failing to respond forcefully, his threat to invade Haiti both convinced the ruling junta to leave voluntarily and successfully restored President Jean-Bertrand Aristide

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to power. This prevented a bloodbath and an exodus of Haitian refugees to Florida, and it was also a clear humanitarian success. Haiti remains a poor and deeply troubled society, but it is better off than it would have been had the United States done nothing.

The administration's more ambitious humanitarian efforts present a more ambiguous picture. In Bosnia, for example, the United States was slow to respond to widespread human rights abuses and was visibly reluctant to place its forces in harm's way. To Clinton's credit, he ultimately recognized the failure of this policy; the United States subsequently took the leading role in fashioning the 1995 Dayton agreement, which brought an end to the violence in Bosnia. But the U.S. response came very late, and NATO has been unable to craft a workable formula that would secure peace and permit its forces to withdraw. Indeed, by rejecting the possibility of ethnic partition and insisting that the long-term goal be a democratic and multiethnic Bosnia, the United States has committed outside forces to Bosnia for years to come.

Similarly, although NATO's intervention in Kosovo has been hailed as a triumph of allied cohesion and humanitarian principles, Clinton's handling of the situation was hardly a model of farsighted statecraft. By issuing an ultimatum at the Rambouillet conference that Serbia was certain to reject, the United States most likely provoked what could have been an avoidable war. Moreover, Clinton and Secretary of State Madeleine Albright badly underestimated Yugoslav President Slobodan Milošević's resolve and were caught off guard when NATO's bombing campaign led Milošević to accelerate the expulsion of Albanians in March 1999. That error was compounded by the West's decision to eschew a ground option in the early stages of the fighting.

In the end, NATO compelled Serbia to withdraw its forces and was able to claim victory. But the Serbs gained several nontrivial concessions in the final settlement. Additionally, Kosovo is proving to be as difficult for NATO and the U.N. to control as it was for Belgrade. Although Clinton's aides managed the war skillfully and may have prevented an even larger humanitarian tragedy, they bear some responsibility for causing the war itself and failing to anticipate the larger consequences. The war in Kosovo convincingly demonstrated Clinton's ability to manage the alliance, but it was only a limited success on its original human rights grounds.

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If the human rights record in the Balkans is ambiguous, the record elsewhere contains several clear failures. The first is Somalia, where a successful U.N. relief effort was sabotaged by political conflicts within Somalia and by the Clinton administration's attempt to arrest a particular Somali clan leader. By undermining public support for humanitarian operations, the error in Somalia paved the way for an even more tragic failure in Rwanda. Despite clear signs that mass slaughter was being planned there, the United States helped derail the U.N. peace effort. The result was the most costly humanitarian tragedy since the Khmer Rouge massacres in Cambodia and might have been prevented had the United States acted promptly. President Clinton acknowledged these mistakes during his visit to Rwanda in 1998, but his admission merely underscored the seriousness of the error.

Clinton's successor will likely follow in his footsteps, no matter which party wins.

As for Clinton's pledge to rely more heavily on international institutions, both he and his team seemed genuinely committed to "assertive multilateralism." But this policy was soon abandoned, and Clinton has generally acted precisely as one would expect from the leader of the world's largest power—relying on international institutions when they suit U.S. purposes but criticizing or ignoring them when they do not.

Thus Clinton was quick to blame the U.N. for the debacle in Somalia, and he engaged in a recurring war of wills with U.N. Secretary-General Boutros Boutros-Ghali. The United States used its diplomatic clout to oust Boutros-Ghali in 1996, an action that failed to appease congressional critics and did nothing to strengthen public support for the U.N. as a whole. Clinton also used force against Serbia without specific Security Council authorization, thereby undermining his rhetorical commitment to international law. The administration rejected the international convention banning land mines and the proposal to create an international criminal court, placing the United States at odds with nearly all its allies and putting it in the company of regimes like North Korea's and Libya's.

Clinton's reversal should not surprise us. As the world's sole superpower, the United States has little interest in agreements that might limit its freedom of action and is especially wary of interna-

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tional agreements that might complicate its ability to meet current military commitments. The U.S. military opposed the land-mines treaty and the international criminal court largely for this reason, and Clinton was not about to incur the Pentagon's wrath. Similarly, the United States was hardly going to let a Russian veto in the U.N. Security Council derail the Kosovo campaign, especially when America could claim to be acting multilaterally through NATO.

This instrumental attitude toward existing institutions may come back to haunt the United States once it is no longer as dominant and would like to limit the actions of other states just as they now want to constrain U.S. behavior. But that date will not arrive until long after Clinton has left office. Although one can bemoan his failure to build a more benign world order, we should be neither surprised by his choices nor deluded into thinking that another president would have acted differently.

THE DISGUISED CALCULUS

PRESIDENT CLINTON'S handling of international institutions and multilateralism illustrates the central irony in his handling of foreign policy, namely, the degree to which he departed from his initial idealism and embraced realpolitik. In 1992, candidate Clinton declared that "the cynical calculus of pure power politics is ill-suited to a new era," but his policies as president have shown an ample appreciation for the realities of power. Under Clinton, the United States consolidated its Cold War victory by bringing three former Warsaw Pact members into its own alliance. It shored up its alliances in East Asia and readied itself for a possible competition with a rising China while encouraging Beijing to accept a status quo that favored the United States. It rejected the land-mines treaty and opposed the creation of an international criminal court while moving steadily closer to the construction of NMD. It forced its allies to bear a greater share of the burden in Europe and East Asia while insisting on leading both alliances. And together with its NATO allies, it asserted the right to intervene in the sovereign territory of other states, even without Security Council authorization. Clinton may cloak U.S. policy in the rhetoric of "world order" and general global interests, but its defining essence remains the unilateral exercise of sovereign power.

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This tendency to disguise power calculations is hardly surprising. Americans do not like to think of themselves as practicing realpolitik, but they do like being number one. At the same time, Americans do not want to expend blood and treasure if they don't have to. Perhaps Clinton's greatest achievement is that he has done so well at so modest a cost to the United States. Clinton's strategy is hegemony on the cheap, because that is the only strategy the American people are likely to support. In this sense, Clinton's presidency illustrates the temptations and constraints likely to bedevil his successors.

The foreign policy of the Clinton administration has been well suited to an era when there is little to gain in foreign policy and much to lose. The American people recognize this and have made it clear they want neither isolationism nor costly international crusades. Bill Clinton is nothing if not sensitive to the vox populi, so he has given his fellow citizens the foreign policy they wanted—something they have clearly recognized and appreciated. Pundits may carp and Republicans may complain, but the American people judge his stewardship of foreign policy to be "outstanding," according to polls conducted by the Chicago Council on Foreign Relations. That is why his successor is likely to follow in his footsteps, no matter what is promised between now and January 2001, and no matter which party wins.

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Campaign 2000

New World, New Deal

A Democratic Approach to Globalization

W. Bowman Cutter, Joan Spero, and Laura D'Andrea Tyson

AN ERA OF FUNDAMENTAL CHANGE

THE UNITED STATES enters the 21st century as the greatest beneficiary of the global system it helped create after World War II. As a power with unrivaled dominance, prosperity, and security, it must now lead the peaceful evolution of this system through an era of significant changes. Rapid shifts in technology and the embrace of markets by developing and formerly communist countries are shifting the balance of power among nations, between nations and nonstate actors, and between nations and global economic forces. New technologies are making the world much more interdependent. These

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technologies are accelerating the movement of goods, services, ideas, and capital across national boundaries. They are also displacing traditional security threats with nontraditional worries like international terrorism, organized crime, drug trafficking, and environmental degradation while strengthening the capacities of nongovernmental organizations (NGOs) to influence policy. Tension is mounting between the fixed geography of nation-states and the nonterritorial nature of global problems and their solutions.

The United States cannot shield itself from the effects of globalization. In today's interdependent capital markets, global perceptions of the stability of the American economy and the credibility of American economic policy can significantly affect the dollar's value and domestic interest rates. Despite its economic and military might, the United States cannot protect itself from global environmental problems like ozone depletion, climate change, and threats to biodiversity by acting alone.

The international economic challenges facing a new American president are twofold: first, to grasp the fundamental changes in the global economy, and second, to respond by fostering the conditions and institutions required for a world in which the United States can remain secure and prosperous. The central task of international economic policy is to help develop a new system of global economic relations—a task made essential, rather than simply desirable, by the enormous and irreversible changes now sweeping the world.

THE TRANSITIONAL 1990S

WHEN the Clinton administration arrived in Washington in 1993, the changes engulfing the world economy were already under way, but their permanence, magnitude, and implications were still uncertain. In the absence of a reliable road map, the Clinton administration's approach to international economic policy was shaped by a few basic principles, which will also guide the next Democratic president. First, America's leadership is essential to developing and maintaining multilateral rules and institutions—not because they are ends in themselves, but because the health of the global economy depends on them. Second, America's credibility to lead on international economic issues depends

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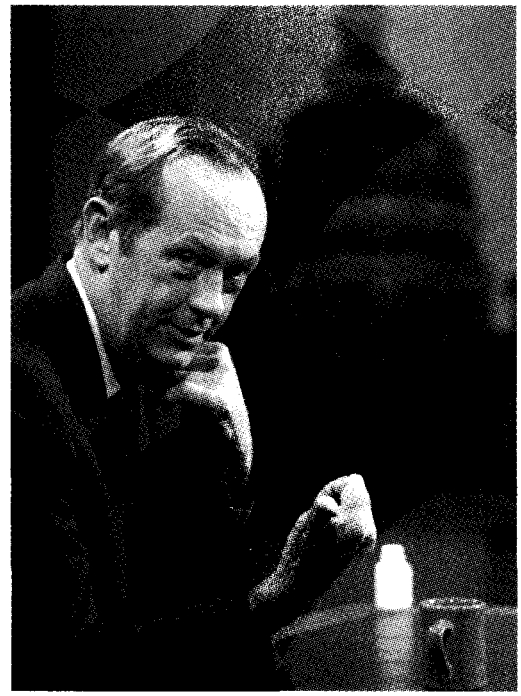

AP/WIDE WORLD

Presidents...

first and foremost on the strength of the American economy. Third, the primary goal of American trade policy is improved market access abroad, not protected markets at home. More open markets and greater competition benefit both the United States and its trading partners. Fourth, those who might be harmed by economic change should have the tools to exploit the opportunities that it creates. Among the tools crafted by the Clinton administration are greater portability of health and pension coverage across jobs; individual training accounts and one-stop career centers for federal job-training programs; tax credits for postsecondary education; and substantial increases in the earned-income tax credit. Fifth, economic engagement with emerging countries, including China, serves America's interests because it enhances those countries' prospects for economic reform and political liberalization based on the rule of law.

Finally, national economic interests should not be considered "secondary" or subordinated to traditional security interests. National security must be broadly construed to include both economic and geopolitical concerns. And in many circumstances, economic policies may prove the best instrument for achieving geopolitical objectives.

During the last seven years, the basic principles motivating the international economic policies of the Clinton administration have not changed, but domestic and global circumstances have. The most important domestic change after 1995 was a Congress controlled by Republicans, many of whom are avowedly isolationist and prefer confrontation to cooperation with the Democratic White House. In addition, environmental, labor, and human rights groups have become increasingly well organized and vociferous in their efforts to block

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CORBIS-BETTMANN

... present and potential: Bill Bradley, Bill Clinton, and Al Gore

further trade liberalization. The result has been the continued erosion of presidential power over trade policy, culminating in successful congressional efforts to block passage of "fast-track" trade authority in 1997 and 1998. This hampered the administration's ability to move its ambitious trade agenda forward. Nonetheless, significant progress has been made during the last three years, including the completion of a global Information Technology Agreement, multilateral agreements on telecommunications and financial services, and an agreement with China on the terms of its accession to the World Trade Organization (WTO).

International economic policy during Clinton's second term has also been affected by the financial crises that erupted around the world in 1997. Working together as they had previously to alleviate Mexico's financial difficulties in 1995, the administration and the Federal Reserve first responded with several ad hoc crisis-management measures, including large International Monetary Fund (IMF) loan packages, informal debt-rescheduling agreements, and interest-rate cuts. These measures brought the world back from the brink of a global credit crunch in late 1998. Since then, the Clinton administration has led multilateral efforts to design new methods for reducing the

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frequency and intensity of future crises. The next Democratic president will have to shepherd these efforts as the global community searches for more effective ways to contain recurrent financial crises in a world of highly mobile private capital.

The protests at the WTO meetings in Seattle last November have been interpreted by some as a sign that globalization is in retreat. But the response of emerging markets to the pain of the 1997–98 financial crises is a more powerful sign that globalization will continue. Rather than turning inward and reverting to state controls over economic activity, these countries have continued on the path of market reform and greater integration into the world economy—affirming the basic principles of President Clinton's international economic agenda. Still, these recent crises, along with symptoms of a populist backlash against globalization in the United States and elsewhere, provide compelling evidence of the need for better management of the world economy.

To meet the challenges posed by the dramatic changes in the global economy during the 1990s, the next Democratic president should focus on three broad objectives: nurturing strategic partnerships with old, new, and changing players; strengthening existing multilateral regimes; and creating new regimes for emerging transnational issues including the environment, labor rights, and the appropriate governance of the global information economy.

THE CORE

HISTORY INDICATES that a preeminent power cannot long maintain its global leadership without the support and cooperation of other nations in the pursuit of agreed-upon interests. Hence forging a consensus with other major powers on international economic objectives and how to share the costs of achieving them will be key tasks confronting the new president.

One of the new centers of power is a united Europe. On the economic front, the European Union (EU) is already a reality. A common currency, free trade, and more unified regulations are propelling cross-border flows of money, goods, services, and people. Cross-border mergers and restructuring are making European firms more competitive and European capital markets more flexible. With time, the EU will gain

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new members, including Poland, Hungary, the Czech Republic, Slovenia, Estonia, and Turkey. Other central European and Baltic countries will complete the transition from communism to capitalism and will either join the EU or establish close economic ties with it. Although Europe will not form a supranational state, policy coordination among member states will gradually increase. The EU already conducts trade negotiations as a single entity. With the creation of European economic and monetary union and the establishment of a common currency and central bank, Europe will increasingly act as one on financial and monetary issues.

In Russia, even the Communists agree that there is no alternative to freer markets.

The next Democratic president must define American economic relations with Europe in terms of the EU. As it has long done, the United States should encourage European unification, which is a stabilizing, modernizing force. But while Europeans share U.S. goals and values, they also increasingly resent American economic, political, and security hegemony. Thus the next president must work to ensure that Europe does not turn inward and that transatlantic economic, political, and security ties are strengthened. The Clinton administration has already laid the groundwork for ongoing high-level dialogue with the Europeans on economic cooperation and common global challenges through the New Transatlantic Agenda.

Russia is a thornier challenge. The West has a profound interest in Russia's transition to a market economy and has been trying to help. Although this transition has been marred by corruption, on-again, off-again reforms, and a dramatic 1998 financial collapse, progress has been made during the 1990s. Russian citizens enjoy more basic freedoms in speech, travel, and religion and are more connected to the rest of the world than at any time in the twentieth century. Russia has a functioning central bank and stock and foreign-exchange markets, and two-thirds of Russian property is no longer under state control. Moreover, the "meltdown" of the Russian economy predicted after its 1998 default has not occurred. In fact, over the last year, industrial production has increased, the trade balance has improved, and Russian firms show signs of restructuring. By exploding the myth in global

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capital markets that Russia is too big to fail, the 1998 financial crisis weakened Russia's corrupt oligarchs and forced the Russian economy toward greater efficiency in the face of more realistic budget constraints. Perhaps most important, those now vying for political leadership in Russia—even the Communists—agree that there is no real alternative to market reform.

The next Democratic president must continue America's constructive engagement with Russia, relying wherever possible on multilateral institutions like the IMF and on cooperation with other advanced industrial countries. American policy should continue to be multifaceted, including trade; financial and technical assistance; educational exchanges; and programs to help Russia develop its civic institutions to combat corruption and safeguard an independent media. But America's interactions with Russia should not be based on illusions. Even with the West's financial and technical assistance, economic progress in Russia will be slow, unsteady, and largely dependent on political decisions made there. And the primary reason for the West's engagement with Russia is not economic—the Russian economy is too small to have much influence on global economic conditions—but geopolitical. Under the Clinton administration's leadership, more than 1,500 Russian nuclear warheads have been deactivated, and more than 300 missile launchers have been destroyed. Through the Cooperative Threat Reduction Program, the United States is working with the Russian leadership to try to ensure that Russian weapons of mass destruction do not fall into the wrong hands. Despite these successes, however, Russia poses a continuing nuclear-proliferation and security threat that must remain the central focus of American policy.

Asia poses quite different challenges. After a decade of stagnation, Japan is taking the first steps toward fundamental changes in its economic system. These changes are undermining traditional ways of doing business in Japan, including its lifetime employment system, its *keiretsu* supplier system, and its cross-shareholding system of "insider" corporate governance. Last year witnessed a dramatic increase in mergers and acquisitions in Japan, and foreign financial institutions were the dominant players. Foreign direct investment (FDI) increased sharply, although from a very low base. In a break with its past behavior, Tokyo has been promoting FDI, and the structural barriers to Japan's

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market that were a major irritant in U.S.-Japanese relations throughout most of the last quarter-century are gradually falling. Moreover, greater FDI will encourage imports into Japan by multinational companies operating there. Japan's imports will probably rise substantially as a share of its economy over the next decade, and U.S. firms—with their strong competitive position in information technologies—will likely win a significant share of Japan's market. Even during the 1990s, when slow growth depressed Japan's overall demand for U.S. imports, the U.S. surplus in services trade with Japan increased steadily, reflecting the strong competitive edge of American companies. Nonetheless, Japan's transition to a more open economic system will not make the substantial U.S.-Japan trade imbalance disappear, for two reasons. First, despite its economic difficulties, Japan has remained a formidable competitor in many global markets, and its painful restructuring will only increase its long-run competitiveness; and second, differences in aggregate growth rates and changes in the dollar-yen exchange rate will continue to be the major force behind changes in the bilateral trade balance.

Japan's painful restructuring will only make it a more formidable competitor.

During Clinton's first term, the United States engaged Japan in highly charged bilateral trade talks, relying on deadlines and threats. Both the goals of these negotiations and their sometimes combative tone reflected more than a decade of escalating trade deficits between the United States and Japan and frustration from American companies over structural barriers to Japan's markets. During Clinton's second term, trade tensions began to ease as Japan's macroeconomic crisis intensified and as the terms of previous trade agreements were implemented. Currently, Washington is pursuing a two-pronged series of negotiations with Tokyo on deregulation and investment. Unlike prior talks, these negotiations have neither deadlines nor specific targets—nor much rancor.

The next Democratic president should continue this approach and maintain a high-level bilateral dialogue on trade. Such a dialogue lets both countries air complaints and avoid confrontation, thereby shielding other aspects of their relationship from commercial tensions.

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Regular high-level conversations also let the two countries develop joint initiatives on shared global economic challenges and common objectives for multilateral organizations like the WTO. Increasingly, the United States must treat Japan not just as an ally but as a partner in safeguarding economic, political, and military security in the Asia-Pacific, strengthening existing multilateral institutions, and building new ones.

The next Democratic president should continue Clinton's policy of constructive engagement with China. China's gradual emergence as a great power is a central feature of the new global system, and America's long-run interests are best served by China's stable evolution toward a more open, democratic system based on the rule of law. Constructive engagement with China does not guarantee this outcome, but it is the best option for increasing its likelihood. China may not be America's ally or partner—but as a result of constructive engagement, it has acted responsibly on issues of mutual importance like Hong Kong, North Korea, and Asia's financial crisis.

Constructive engagement is not an endorsement of China's human rights behavior. But revoking normal trading relations with China or blocking its WTO membership will not improve such behavior. Indeed, the opposite is true. Commercial considerations may seem crass when compared with human rights, but impeding commercial relations with China would impede the flow of information about Western culture, ideas, and business practices to China's emerging middle class and weaken reformers in the state and party leadership.

What about China's trade behavior? Don't large U.S. deficits with China imply that it engages in unfair trading practices? Won't China violate the rules of the multilateral system once it gains admission to the WTO and its trading partners lose leverage? Probably not. China does not enjoy a persistent current-account surplus—a defining characteristic of a mercantilist state. Moreover, China has encouraged FDI as part of its development strategy. Indeed, foreign-funded companies in China accounted for more than half of the growth of its exports during the last decade. China's openness to FDI will mean increased imports in the future. In the final WTO deal announced last November, China made big concessions on trade in manufactured goods, agriculture, and services. It further yielded to America's insistence

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on special protections against unexpected import surges from China. The consensus among China experts is that the WTO deal is a bold—some would say desperate—move by China's leaders to forge ahead with market reforms despite substantial adjustment costs. Finally, China's performance in other multilateral institutions indicates that it will honor its end of the bargain. And should violations occur, the United States will be able to turn to the WTO dispute-settlement mechanism to enforce compliance.

Another controversial aspect of economic relations with China is whether and how to regulate American exports of dual-use technologies—those with substantial military and commercial applications—to China and other countries that may pose security risks. Banning the export of such technologies seems to some the simplest way to safeguard American national security. But this approach is both ineffective and counterproductive. The United States is not the sole source for such products, so a unilateral ban would merely drive would-be importers to other suppliers. And for many dual-use goods, America's national security hinges on the success of their American producers in the commercial marketplace. Unilateral export controls undermine this success and thereby endanger national security. This realization lies behind the gradual easing of export controls by the American government since the end of the Cold War, a trend that the next administration should continue.

Economic sanctions against China will make its human rights behavior worse.

Like China, many other emerging nations are restructuring their political and economic systems, pursuing market policies, and shifting their world-views. The United States must work to engage these new players, together with existing powers, in the processes and institutions on which governance of the global economy depends.

Two of these new players—India and Brazil—are virtually certain to develop significant regional, if not global, influence and are strategically important to the United States. India has the smaller economy of the two but seems closest to a sustained breakthrough in economic growth. More rapidly than is generally realized, India is likely to become an important factor in the strategic equation in Asia as a whole. And

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Brazil, as a result of its size, economic development, and leadership of the Mercosur trade bloc, has already become an important factor in Latin America. Over time, other nations like South Korea, Mexico, and South Africa will probably grow in influence and become part of the complex coalitions of nations required to address global economic problems.

PUTTING IT TOGETHER

THE NEXT Democratic president must strengthen America's alliance with the other major players—Europe and Japan—to reshape existing multilateral institutions and rules and create new ones as necessary. Emphasizing cooperation with these nations will also discourage them from turning inward or creating competing economic blocs. The United States, Europe, and Japan still account for about two-thirds of global GDP. They have similar levels of per capita GDP, effective legal and regulatory regimes, and highly developed capital markets. All trade and invest more with each other than with other regions of the world, and all are becoming information and network economies. The United States, Europe, and Japan should, therefore, be able to agree on many of the new challenges posed by globalization and the information revolution; negotiate free-trade areas in services, investment, and electronic commerce; adopt common guidelines for intellectual property and privacy; develop common regulatory standards in sectors such as biotechnology, the environment, health, and food safety; and agree on qualifications for professions and industries. New forms of cooperation and joint decision-making among these three great powers should be carefully designed to support the multilateral system, and agreements among them should be open to participation by other countries or adoption by other multilateral institutions.

Historically, the G-7 group of highly industrialized nations has promoted economic cooperation among the United States, Europe, and Japan by engaging their heads of state in annual discussions about mutual concerns and creating working groups in each nation to develop mutual solutions. In recent years, however, the G-7 process has begun to lose its relevance because it excludes other nations important to the global economy. Because an ongoing, high-level dialogue among the heads of the world's major economic powers is important

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to the United States, the next Democratic president should encourage the G-7 to broaden its membership to include Russia (which is already included in most discussions), Brazil, China, and India.

The recent failure of the WTO talks in Seattle demonstrates the foolishness of launching global trade talks before developing a consensus on the issues among the United States, Europe, and Japan—still the largest trading nations in the world. But the lessons of the Seattle debacle go deeper.

First, the low-hanging fruit in multilateral trade negotiations has already been picked. In previous rounds, tariffs were slashed and quotas eliminated for most trade in manufactured products. Future negotiations will focus on agriculture and services—sectors that are politically sensitive and highly regulated by individual countries, including the United States—and will involve such traditionally domestic issues as antitrust policy, consumer safety, and other regulatory questions. Crafting multilateral agreements on such issues will be a long, painful process. And enforcing compliance with such agreements, which require nations to change entire areas of domestic law, will prove much harder than enforcing compliance with previous agreements barring overt trade barriers. Establishing a permanent executive committee within the WTO to replace the loose ambassadorial mechanism that currently proposes new multilateral trade talks could help. And the pointless practice of holding biennial WTO meetings at the ministerial level, even when there is nothing substantive to discuss, should end.

Second, given the complicated nature of future issues and the unwieldy number of future participants, the "global round" approach to trade talks—involving all WTO participants in a comprehensive agenda requiring bargains across several sectors—may have outlived its usefulness. Since it will be so difficult to forge consensus on the agenda for another global round, negotiations focused on liberalizing trade in individual sectors are an attractive alternative. In recent years, such negotiations have produced significant agreements in the diverse areas of information technology, telecommunications, and financial services. Moreover, since there is still much to do to implement these agreements, consolidating their achievements may be the best way to strengthen the multilateral trading system and achieve real progress over the next few years.

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Third, to fight the burgeoning backlash against globalization and build public trust, WTO operations must become more transparent. At the same time, new multilateral approaches must be developed to address global concerns in other areas such as the environment, labor rights, and human rights. The next Democratic president should encourage such efforts while making sure that the WTO maintains its focus on trade. The WTO exists to develop and enforce trade agreements, and such agreements exist to foster trade. The WTO is not the appropriate forum for other issues, although it could adjust over time to permit trade restrictions to enforce multilateral pacts on issues negotiated elsewhere.

In the meantime, the United States should eschew unilateral trade restrictions, including sanctions, to compel other nations to comply with American laws on the environment, labor practices, or human rights. During the last several years, America has imposed some form of unilateral economic sanctions against 26 countries, accounting for half the world's population. These sanctions have not achieved their goals; indeed, sanctions often harm exactly those they seek to help. And sanctions have cost the United States about $20 billion in lost exports, 200,000 jobs, and the goodwill and trust of its allies abroad.

Finally, the next Democratic president must continue to educate the American public about the ways the U.S. economy is helped by enforceable multilateral trading rules. As the largest exporting country and the one with the lowest trade barriers, the United States reaps the greatest benefits from trade liberalization. The more countries trade with one another, the better off they are. But the more they need multilateral rules to settle disputes, the more these rules influence domestic practices. Still, the WTO is not a world government that can override or proscribe its members' laws. If the United States loses a case before the WTO, it can either retain its domestic laws and accept trade sanctions from the complaining nation or adjust these laws to eliminate discrimination against foreign producers.

Regional economic integration can complement and spur multilateral liberalization. It can also contribute to political stability. For these reasons, the next Democratic president should build on the efforts of the Clinton administration to promote regional cooperation and liberalization in both Asia and Latin America. The Asia-Pacific Economic Cooperation forum is the basis for a sound economic strategy in the

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Pacific basin. Its membership boasts a number of important regional players (among them China, Japan, South Korea, Mexico, and the members of the Association of Southeast Asian Nations), it provides a useful forum for the region's heads of state, and it is committed to trade liberalization and cooperation in fields from telecommunications to basic infrastructure.

Building on the success of the North American Free Trade Agreement, the United States has convinced Latin American countries to agree on a broad economic agenda whose centerpiece is the creation of a Free Trade Agreement for the Americas (FTAA), with additional cooperation on the environment, human rights, crime, and other global issues. The next Democratic president should accelerate the FTAA process, which has been hampered by the absence of fast-track trade authority. Without such a process, American influence in the region will diminish, and the likelihood of competing economic zones will increase.

FOR RICHER, FOR POORER

As GLOBALIZATION has intensified, the gap between per capita incomes in rich and poor countries has widened. Although this trend has been around for the past two centuries, it has accelerated in recent years. For the many emerging countries that already have the institutions and income levels to attract private capital and the education levels to prosper in the new information age, the private sector will fuel continued economic development. Indeed, for most of these countries, the economic development problem—although substantial—is best understood as an internal poverty problem. But this is not so for the nations of Africa, many of which are being left behind.

What should the next Democratic president do to address human needs and spur economic development in the most impoverished nations? First, the White House should espouse complete debt forgiveness for the world's poorest nations. Second, the president should lobby to increase America's inadequate foreign-aid budget and redirect it toward programs to meet basic human needs—for example, a U.S.-led effort among the developed nations to counter the AIDS epidemic in Africa or to establish a special fund to help the

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poorest nations honor multilateral environmental agreements. Third, the president should work with other advanced nations to reduce tariffs, ease antidumping penalties, and lower quotas on trade with developing countries. Finally, the administration should foster cooperation with the NGOs that already deliver more development assistance than the entire U.N. system, including the World Bank and the IMF.

EARTH IN THE BALANCE

THE NEXT Democratic president should establish a bipartisan group of experts to assess the lessons learned from recent financial crises, evaluate the adjustments already under way, and recommend additional changes. At the same time, the president should pledge America's commitment to the World Bank and the IMF, emphasizing their importance while recognizing the need for further reform. Such reform should be guided by two considerations. First, these institutions must adjust to the vastly greater scope and scale of private cross-border capital flows. Second, they must find ways to engage more of the public in the countries to which they lend—both to use their resources more efficiently and to help promote the stable civil societies on which successful economic development depends.

A growing number of environmental problems—ozone depletion, global climate change, threats to biodiversity—are international in scope and require cross-border solutions. Industrial countries, including the United States, are disproportionately responsible for most of these environmental problems, but developing countries are also rapidly damaging common environmental resources. Solutions, therefore, require the participation of both developed and developing nations. But since the costs and benefits of addressing common environmental problems vary among countries, as do the available resources, global agreements must include effective transfer mechanisms and flexibility about the methods used by different countries to achieve environmental targets.

No vehicle exists for nations to negotiate new multilateral pacts on environmental issues. That is one big reason why environmentalists have focused on the WTO. But using the WTO as the forum for multilateral environmental negotiations both endangers further trade lib-

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eralization and raises the risk that trade will be restricted in the name of environmentalism but in the service of protectionism. To head off these risks, a new Democratic president should propose creating a new Global Environmental Organization to develop and enforce new international agreements on specific problems, using the successful Montreal protocol on slowing ozone depletion as a model.

In recent years, a growing number of NGOs at home and abroad have called for a set of internationally recognized and enforced labor standards that would ban child labor and sweatshops and support workers' rights to organize. Logically, labor rights and standards are development and political issues, not trade issues. There is no evidence that trade undermines labor standards and leads to an international "race to the bottom." In fact, the opposite is true. Most global trade still occurs between developed countries, which enjoy the highest wages, labor standards, and productivity levels. And as trade and integration in the global economy have helped poor countries develop, their wages, productivity, and labor standards have improved. Developing countries that have strengthened their labor standards have done so because of more trade and integration, not less.

> Labor standards improve because of more trade and integration, not less.

Despite such evidence, labor standards will move up the agenda of international economic negotiations as global integration continues. And the next Democratic president will have to be sensitive to the desires of both NGOs and organized labor for global workers' standards. Given the opposition of most of the rest of the world, however, this will not be easy. So Clinton's heir should continue to promote his reasonable Seattle approach of establishing a multilateral discussion group to examine some labor rights issues, including child labor and sweatshop conditions. The group should include the International Labor Organization, the United Nations, and the World Bank, and it should be charged with reporting its findings to the WTO by a specified date. Second, the president should encourage the private sector to develop labeling systems and codes of conduct certifying compliance with core labor standards. One promising effort is a program called Social Accountability 8000, launched by the Council

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of Economic Priorities and a group of influential American companies to encourage firms to comply with labor and human rights standards. Another is the United Nations' proposed Global Compact with Business, under which the U.N. will help multinational companies meet internationally accepted principles of human rights, labor practices, and environmental standards.

Third, the president must continue to educate the American people about the way trade boosts labor standards by highlighting American firms that have improved working conditions in their foreign operations. Polls indicate that most Americans would rather buy from companies committed to ending worker abuses and that American consumers would be willing to pay somewhat more for products made in worker-friendly environments. In addition, a growing number of American multinationals recognize that bad publicity about working conditions in their foreign operations can damage their reputations and bottom lines. A new Democratic president can effectively use the bully pulpit to shine the spotlight on American firms that are doing well by doing good and encourage a "race to the top."

Nations must also begin to work with one another and the business community to define appropriate policies for the world of e-business. Without cooperation, different policy regimes will develop within different regions and nations, each attempting to govern phenomena that are inherently transnational. Different sets of rules will in turn generate unnecessary transaction costs and slow the diffusion of wealth and knowledge made possible by the new technologies.

To date, the Clinton administration has avoided regulation of the networked economy at home and made the case for a similar approach abroad. American officials had hoped to include digital issues on the agenda for the next global trade round, but that has been delayed by the failure of the Seattle talks. In addition, the Seattle discussions suggest that even when a new round begins, negotiations will focus on highly visible, politically contentious issues such as agriculture, textiles, and dumping that traditionally dominate trade debates, rather than on digital issues.

Therefore, it is time to develop a specific multilateral process focusing exclusively on such issues. This should be a principal objective of the next Democratic president. There are three logical steps: first, establishing a trade and investment round within the WTO focusing

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specifically on e-commerce; second, developing a set of basic principles for such talks, with a broad agenda including crime prevention, privacy, intellectual property, taxation (including the possible establishment of a multilateral tax clearing-house), and dispute settlement processes; and third, providing access to the networked economy for all nations and regions. The last step will require targeted lending programs funded by the World Bank, NGOs, and developed countries to help the poorest countries build the necessary infrastructure.

STAY ON TARGET

THE UNITED STATES has benefited from globalization. Throughout much of the 1990s, exports accounted for about a third of U.S. growth. Even when American exports slowed in response to recessions in emerging markets, the same financial crises causing these recessions also increased flows of capital into American financial markets and reduced import prices for American consumers, fueling America's continued economic expansion during the last three years. This expansion—now the longest in the nation's history—has produced the lowest unemployment rate in more than 30 years and raised incomes for all groups of American workers, including the least skilled. True, the nation's trade and current-account deficits have hit record levels, but these primarily reflect the relative strength of the American economy compared to its trading partners and the resulting strength of the dollar, not an increase in protectionist barriers abroad.

It is easy to understand why a populist backlash against globalization has taken hold in much of the world, plagued by an endemic poverty made worse by recent contractions. As hundreds of millions of people in emerging markets have seen their jobs and incomes decimated by global financial shocks, modern information technologies have shown them images of American prosperity—and of American officials and business leaders lecturing them about the necessity of painful sacrifice. Signs of an emerging backlash against globalization in the United States, although perhaps harder to justify, are inflamed by some of the same concerns: rising income inequality, job insecurity in a rapidly changing and harshly competitive environment, and a sense of powerlessness and uncertainty about the future.

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Economic integration among nations, although beneficial overall, does create winners and losers. And even many winners fear that the next wave of change spawned by footloose capital and technological change will make them losers. To allay such concerns about globalization, the next American president must design policies to sustain America's expansion and give Americans the tools they need in the global marketplace. Among the most important of these are lifetime education and training opportunities, portable and fair pensions and health-care benefits, and a safety net to support incomes during periods of adjustment or recession.

At the same time, the next president must work with the leaders of other nations to develop multilateral agreements and institutions to ease the economic downsides of globalization and address new global issues. As President Clinton noted in his 1998 speech before the Council on Foreign Relations, the multilateral system must evolve toward a kind of "Global New Deal." The painful experiences of many transition economies and the unexpected financial crises of the 1990s have reminded the world that to work well, markets require a strong commitment to the rule of law, transparent financial institutions, legitimate corporate and political governance structures, and adequate social safety nets. As the new millennium begins, a new Democratic president will have the opportunity to lead the world in creating institutions and policies to sustain a more equitable process of globalization built on the marvels of the market and modern technologies.

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The Color of Hot Money

Martin N. Baily, Diana Farrell, and Susan Lund

> All these countries have spent 40 years trying to build up their economies and a moron like Soros comes along with a lot of money to speculate and ruins things.
>
> — Mahathir Mohamad, prime minister of Malaysia, January 1998

TOO DARN HOT

MAHATHIR's flamboyant rhetoric may be his alone, but his views have gained respectability in the wake of the recent financial crises in Russia and Asia. Famous for moving large sums of money in and out of countries quickly, hedge funds are frequently blamed for destabilizing economies and impoverishing the innocent. As their detractors see it, these funds routinely gamble vast sums of money in shadowy, overleveraged investments, unimpeded by government supervision. And this high-stakes financial poker, critics argue, sparked the volatile "hot-money" flows that undermined emerging markets in 1997 and 1998.

But skeptics thinking about imposing capital controls or otherwise curtailing the activities of hedge funds and other portfolio investors should pause. Those investments were not the prime cause of the volatility of global capital flows. In fact, the hot money in the recent crises came mostly from bank lending, not from hedge funds or other nonbank investments such as pension and mutual funds. International bank lending to emerging markets has often been more volatile than portfolio investments in equities and bonds—because the vast

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majority of bank lending has taken the form of short-term loans between banks, not long-term project financing. As capital markets continue to grow, eventually replacing traditional bank lending as the primary source of international financing, capital flows are likely to become *less* volatile. Moreover, despite all the focus on hedge funds, they remain small when compared to other market players.

These facts reshape the entire global financial debate, which should instead center on how to help countries shift from bank financing to capital markets where the transition has just begun—while ensuring that their governments and global financial institutions adequately protect investors.

FOLLOW THE MONEY

THAILAND'S financial crisis is a good example of the impact of irresponsible bank lending. Foreign capital flows to that country grew rapidly throughout the 1990s, reaching a peak of $25.5 billion in 1995. Nearly 75 percent of this took the form of bank loans; the remainder was equity and bond investments (including those made by hedge funds) and direct investment by companies. By early 1997, many of these investments were clearly becoming unprofitable, while the Thai banking system was struggling with a growing number of loans that were in default. Foreign banks got out quickly, turning a $1.9 billion inflow in the first quarter of 1997 into a $6.2 billion outflow in the second quarter—a plunge of more than $8 billion within three months. (This figure may even understate the amount withdrawn, since it does not include unused lines of credit that may have been cut.) These outflows put enormous pressure on the baht, which was devalued the following July. Foreign banks continued to pull money out of Thailand rapidly through the rest of 1997 and 1998, triggering a massive liquidity crisis that ultimately spawned a severe economic recession. In addition, $2.5 billion of Thai capital fled the country.

What role did foreign portfolio investors play in all this? In contrast to many banks, they remained calm throughout the initial crisis, continuing to put money into the country even after the baht's devaluation. Portfolio inflows increased by more than 70 percent between the second and third quarters of 1997 and remained positive, albeit much smaller,

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CORBIS-BETTMANN

Innocent, after all: George Soros in Davos, Switzerland, February 1999

through the rest of the year and the first half of 1998. Not until late 1998, when it became clear that the economic recession caused by the banking crisis would dampen growth prospects for several years to come, did foreign investors begin to withdraw money from Thailand.

Foreign bank lending proved fickle in the rest of Asia and Russia as well. The five Asian crisis countries (Thailand, Malaysia, South Korea, Indonesia, and the Philippines) received $47.8 billion in foreign bank loans in 1996. This capital inflow turned into a $29.9 billion outflow in 1997—a turnaround of almost $80 billion. Portfolio inflows, in contrast, fell by half but remained positive. The same pattern held for most individual countries, such as South Korea and Malaysia; Indonesia experienced a large outflow of portfolio investments in the fourth quarter of 1997 that became positive again by mid-1998. In most cases, it was money from foreign banks that dried up and fled

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the country, not money from portfolio investors. (Only in the Philippines, the country least affected by the crisis, did portfolio investors bail out more quickly than foreign banks.) A year later in Russia, foreign bank lenders again were the first to flee.

This pattern is not limited to recent crises. Across the world, foreign bank lending is generally more volatile than portfolio investments. During the 1990s, quarterly swings in the total amount of foreign bank lending were far larger than the ebbs and flows of either portfolio bonds or equities. The volatility of bank-loan flows over this period—the standard deviation of flows divided by the average size of capital flows for the entire world—was 82 percent, as against 50 percent for portfolio flows. The same pattern holds for many individual countries. Between 1992 and 1997, for example, the average volatility in annual foreign bank lending to an individual country was 239 percent. During the same period, average annual volatility in bond flows was only 176 percent and in equity flows 150 percent—still turbulent, but much less so than foreign bank loans.

This instability reflects the nature of international banking today. Many people assume the loans that global banks make are a form of long-term project financing that cannot be withdrawn abruptly. But today's international bank lending often takes the form of short-term interbank loans. At the end of 1997, after the Asian crisis had begun, more than 55 percent of foreign bank loans worldwide were short term, with maturities of less than one year. More than one-third of these were interbank loans that were then applied to many purposes, including the financing of long-term domestic lending. These proportions are even higher in many emerging markets. In Thailand, two-thirds of foreign loans had maturities of less than one year. The vast majority of these went to Thai banks and finance companies, which then used them to support loans of longer duration.

In better days, foreign banks would roll over (that is, extend) most short-term loans as soon as they officially expired, often indefinitely. This became so routine that many emerging-market banks and finance companies imprudently began to rely on this money to fund new, longer-term loans—i.e., borrowing short to lend long. But when trouble appeared on the horizon, foreign banks stopped rolling over these loans as they expired and demanded repayment, thereby precipitating the crisis and forcing capital to flee.

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A COMMITMENT PROBLEM

WHAT MAKES international bank lending so volatile? It is not that banks are irrational or foolhardy about the risks involved. The problem lies in the incentives at work in today's fiercely competitive environment. During the 1990s, profit margins on traditional bank lending shrank. As a result, many banks came under pressure from shareholders to bolster their returns by lending to emerging markets, which offered higher interest rates and robust economic growth. The capital requirements of the Bank for International Settlements inadvertently encouraged this trend by making it cheaper for foreign banks to lend to many emerging-market banks than to the largest, most stable corporations. But once they entered these markets, banks tended to pull loans quickly in times of trouble. The unique combination of pressures and incentives thus caused banking institutions to drive the hot money in global financial markets. The fact that all banks share the same incentives and tend to act in unison amplifies market volatility.

The root of volatile bank lending also lies in the nature of the loan contract. Bank loans are mostly illiquid, fixed-price assets—they cannot be quickly converted into cash, and once priced, their interest rate does not go up and down to reflect new information about a borrower (except in the case of a breach of contract or a default). Because the "price" of a loan—the interest rate—does not automatically adjust to changing market conditions, banks adjust the quantity of lending instead. A bank can avoid a default by simply declining to roll over its loans if it sees a borrower in trouble. The short maturities that are common today give banks this flexibility. Bonds and equities, in contrast, adjust to changing market conditions through price rather than quantity. These securities continually reprice to reflect new information as it becomes available. Because prices fall immediately, an investor has no time to sell without incurring a loss. Rather, equity and bond investors have an incentive to hold on to their investment and wait for prices to rise once the market's downward correction has ended.

Paradoxically, advances in bank risk-management techniques exacerbate the volatility of foreign bank lending. With bank loans, the bank itself and its shareholders bear the full risk of a loss. As the 1980s debt crisis illustrated, the loss from foreign lending incurred by a single bank

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can be tremendous. Citibank, for example, wrote off $3.5 billion in loan losses on Latin American debt in the 1980s. To avoid such debacles, banks have developed sophisticated risk-management models, such as the value-at-risk model. When market risk or credit risk in a particular country increases more than expected, these models indicate that banks must either put up extra capital to cover the risk or reduce their exposure to that market. If banks choose the latter, they can either shed that country's securities or cut lending. But because a selloff of assets typically entails losses, banks are more likely to cut lending.

Many banks had already adopted similar risk-management models before the 1997 financial crisis struck. Not surprisingly, when the credit risk of Asian banks began to rise and banks had to either shed Asian securities or cut lending, they did the latter. The widespread adoption of such risk-management practices in the years leading up to the crisis ultimately magnified the impact of the banks' actions when they raced to cut their exposure in emerging markets in 1997.

The largest portfolio investors generally use different risk-management techniques, in part because the capital of a numerous and diverse group of shareholders is at risk, not that of the funds. Most fund managers would not rapidly pull out of a market unless withdrawals by lots of investors forced them to do so. But the investment strategies of individual investors have been remarkably stable—largely because emerging markets typically make up only a very small percentage of their overall portfolios. (Indeed, customer withdrawals from emerging-market mutual funds did not increase notably during the Asian crisis.) Hence, portfolio investment managers enjoy more flexibility in reacting to risk and have less incentive than banks to withdraw funds when market conditions change.

In the years leading up to the crisis, the sluggish profitability of domestic lending in developed markets made emerging markets an attractive alternative. Emerging markets everywhere offered high returns on investment, especially after the lower capital requirements of some of this lending are factored in. Banks carefully minimized the risk to themselves by concentrating on loans with short maturities, which gave them the flexibility to pull out if economic conditions changed. Moreover, they denominated the vast majority of loans to emerging markets in U.S. dollars, thereby eliminating currency risk.

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In Thailand, for example, 75 percent of foreign loans were in U.S. dollars, even though most of these came from Japanese and European banks. These precautions paid off for banks but increased the risk for borrowers. Hence, most losses in Asia—at least for U.S. banks—came from losses in bond and equity trading and a decline in other Asian business (like securities underwriting), not from loan defaults.

Ironically, the most troubled banks had the greatest incentive to lend to emerging markets. Faced with a mountain of bad debt at home and paltry returns on investment overall, Japanese banks had become the largest lenders to Thailand and Southeast Asia before the crisis. By June 1997, they had extended $97.2 billion in loans to the region, whereas U.S. banks had extended only $23.8 billion. Large French and German banks, prompted by stagnant domestic markets and pressure from competitors, also became prominent lenders to the region. For a time, this lending was highly profitable. Japanese banks could pay one percent interest on deposits and then lend to Thai or South Korean banks at four or five percent interest. But their difficulties at home made them highly sensitive to potential losses, prompting the massive withdrawal of credit to the region at the start of the crisis. Of the $17.5 billion decline in lending to Southeast Asia between June and December 1997, $10.5 billion came from Japanese banks. They simply did not have the financial strength to renew credit to Southeast Asian borrowers in difficult times.

In short, it should not be surprising that foreign bank lending can be highly volatile. Changes in the types of lending activities, the nature of the loan contract, risk-management techniques, and competitive pressures all prompted banks to engage in high-risk lending to emerging markets in a way that minimized the risk to themselves. But how do hedge funds fit in to all this?

THE USUAL SUSPECTS

AT FIRST GLANCE, hedge funds would seem to be the prime suspects behind global market volatility. They are largely unregulated investment funds with few disclosure requirements and a penchant for secrecy. Rather than clustering in global financial centers with large banks and brokers, hedge funds often locate themselves offshore or in outlying areas. They generally use highly dynamic, aggressive trading

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strategies, darting in and out of markets to arbitrage price differences. They have few investment restrictions and can build highly concentrated portfolios or invest in exotic financial instruments like futures and forward contracts.[1] As the near bankruptcy of Long-Term Capital Management (LTCM) revealed in 1998, hedge funds also can use disproportionately large amounts of borrowed money. Critics allege that this enables them to manipulate markets and even cause financial crashes.

But the impact of hedge funds on international markets is greatly exaggerated. First, hedge funds do not fundamentally differ from other market players, like proprietary traders at commercial and investment banks, who have been using the same types of trading strategies for years. In fact, many hedge funds were started by traders from the major banks. The major difference is that the proprietary trading operations of banks as a group control about twice the amount of assets as do hedge funds.

Compared to other portfolio investors, hedge funds are even smaller. Whereas pension funds, mutual funds, and insurance companies together hold nearly $25 trillion in assets worldwide, hedge funds control only around four percent of that—an estimated $800 billion to $1 trillion. Furthermore, the overleveraged risk-taking of LTCM—which infamously invested sums that were 20 times or more the size of its capital base—is not typical. Van Hedge Fund Advisors reports that roughly a third of hedge funds use no leverage at all, while the average leverage ratio for all hedge funds lies between 4:1 and 7:1. So even counting leveraged assets, hedge funds pale when compared with institutional investors. And although risk-hungry hedge funds put more of their investments into foreign markets than do institutional asset managers, they are marginal players there as well. The relatively small size of hedge funds thus suggests that they alone are unlikely to have caused excessive volatility in most markets.

[1] In a forward contract, a party agrees to sell a given currency at some point in the future at a given price. Parties enter into such contracts for the purpose of shortselling a currency—that is, borrowing in that currency with the expectation it will depreciate. If it does fall, they pocket the difference between the value of the amount borrowed and the amount repaid.

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Instead, it was the herdlike behavior of other market players that rocked the markets in recent years. Again, consider Thailand. In July 1997, the Thai government abandoned its exchange-rate peg and allowed the baht to float, spurring a depreciation that wiped out 56 percent of the currency's value by January 1998. At the time that the peg was dropped, the Bank of Thailand estimated that hedge funds held at most 25 percent of the $28 billion in forward contract sales of the baht. Most of the pressure on the baht actually came from short sales by other market players, the massive outflow of foreign bank loans, the liquidation by domestic companies and banks of their securities positions, and last-minute attempts by corporations and banks to hedge previously unhedged foreign loans. Hedge funds took their positions on the baht after significant pressure had already built up, and they exited the market early. In fact, many hedge funds started taking long positions on the baht and other Asian currencies again in August and September 1997 and lost money doing so. Certainly, a few of the large hedge funds profited handsomely from the initial devaluation of the baht, but they did not precipitate the collapse. Instead, it was caused by the overwhelming pressure exerted by the collective actions of all market participants. As one trader in Thailand noted, "Who wasn't betting against the baht?"

Hedge funds are marginal players in foreign markets.

Indeed, hedge funds often play a critical role in curbing market volatility by providing liquidity. Within the hedge fund universe, a great diversity of investment strategies abounds. Relative-value funds, for example, arbitrage price differences between securities; macro funds bet on the direction of the market; and global funds assess the prospects of individual companies. Different hedge funds often end up taking opposite positions in the same market. They are also likely to bet against the market, helping correct an imbalance between buyers and sellers. Hedge funds behave this way because their managers are rewarded for finding overlooked opportunities that produce extraordinary returns rather than for matching an industry benchmark. In short, their enormous flexibility in choosing investment strategies and their restrictions on customer deposits and withdrawals give them the freedom to be contrarian.

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In addition, hedge funds can play an important role in promoting price efficiency. Relative-value hedge funds, which profit by correcting anomalies in the relative prices of assets, help to ensure that risk is priced more uniformly and accurately throughout the world. Macro hedge funds help correct the price level within a market when it is out of equilibrium. In developed capital markets, the activities of hedge funds (and the nearly identical activities of proprietary traders at banks) have greatly increased the efficiency of pricing, as seen by the decline in arbitrage opportunities. Thus hedge funds and proprietary traders generally play a positive role in well-functioning capital markets by ensuring that prices accurately reflect market fundamentals and that risks are priced uniformly.

A CAPITAL IDEA

RATHER THAN trying to limit hedge-fund activities, policymakers should focus on the quality of the information that investors use to make decisions. They can accomplish this by improving disclosure, financial transparency, and investor protection. But this goes only so far. They must also recognize that capital markets are replacing banks around the world as the primary source of financing. Today, countries with deep capital markets—such as the United States, the United Kingdom, and Switzerland—are furthest along in this transition. Other countries lag behind due to their lack of economic development (the emerging markets) or the necessary financial and regulatory infrastructure (Japan and much of Europe). Nevertheless, many markets are making the transition, no matter how slowly.

This shift to capital markets will help both individual countries and the world. As explained above, markets will stabilize as more financial instruments begin to adjust through price rather than quantity. Risk will be increasingly diluted as it is spread across a larger investor base, ultimately resulting in lower interest rates for issuers. Competition among intermediaries will increase and improve market efficiency.

To facilitate the transition, developing countries should focus on strengthening the "intangible" structure of modern markets. This would involve adopting global standards for accounting and reporting by both private firms and government institutions, such as national

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treasuries. (In the case of the latter, this would include reporting on the real level of usable reserves.) Adoption of such standards would also entail more rigorous market supervision and regulation as well as protection of creditors—and all shareholders—even in the event of a borrower's insolvency. For its part, international banking has a role to play during the transition in enforcing rigorous credit-assessment and loan-monitoring practices to emerging markets, where poor skills and low standards are still the norm. Long-term foreign direct investment in emerging-market companies would further improve supervision of management. All these reforms would ultimately lessen volatility.

Although the G-7 group of highly industrialized nations has promoted more open and transparent markets and stronger national financial systems, some governments and economists now talk of slowing down, rather than speeding up, the transition. Discussion of capital controls and the curtailment of hedge-fund activities abounds. Meanwhile, crisis countries are busy bailing out (and in some cases restructuring) weak domestic banking institutions. Such actions—although needed and appropriate—do not constitute a comprehensive solution to the problem.

To counter a retreat by traumatized emerging economies, policymakers must promote domestic capital market development and encourage the transition from banks to capital markets. Although many countries opened their fledgling markets to foreign investors in the 1990s, the crises underscored how woefully underdeveloped the infrastructure of these economies really was. Rather than hiding behind the false security of financial isolation and capital controls, such countries need to equip themselves to become full-fledged participants in the global market. But for that to happen, they and the policymakers who assist them must realize who is actually driving the hot money in international finance.

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The Degeneration of EMU

Niall Ferguson and Laurence J. Kotlikoff

HERE TODAY, GONE TOMORROW

FROM CONCEPTION through gestation and birth, and now in its early infancy, the euro has consistently proved the skeptics wrong. Some Cassandras thought that Brussels-bashing nationalists would reject the single currency in referendums. Others doubted that Italy and other fiscally troubled applicants would fulfill the Maastricht Treaty's strict limits on budget deficits and national debt. Still others predicted that the fierce 1998 dispute over the presidency of the European Central Bank might abort the entire enterprise.

Yet economic and monetary union (EMU) has proceeded more or less according to plan. The French referendum's "petit oui" in 1992 may have required a little gentle massaging; the Maastricht fiscal criteria may have been honored partly in the breach; and of course the currency has, over the past year, depreciated markedly against the dollar. But the fixed exchange rates within the eurozone have held firm, despite warnings about speculative attacks during the transition. And with its depreciation spurring economic growth, the euro is likely to recover somewhat against the dollar this year.

Nevertheless, the skeptics may have the last laugh. For whether a euro equals a dollar tomorrow or the next day does not really matter.

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What matters is whether the entire monetary union will hold together in the years ahead. The euro's medium-term future will prove much shakier when Europe is hit by the fiscal crises looming for the majority of the eurozone's member countries.

THE NEW MATH

THE NOTION that such fiscal problems exist is not new. Nor is the proposition that they could jeopardize monetary cohesion. But fresh evidence, drawn from a recent, comprehensive calculation of "generational accounts," shows the full extent of the fiscal crisis facing the eurozone.

Generational accounting provides answers to the following three questions: How large a fiscal burden does current policy impose on future generations? Is current fiscal policy sustainable without major additional sacrifices on the part of current or future generations? What policies are required to achieve generational balance—i.e., to ensure that future generations will pay to the government the same share of their lifetime incomes in net taxes (taxes paid minus transfer payments received) as do today's generations?

This new method of accounting was developed not to augment the conventional measure of fiscal imbalance—the official government debt—but to replace it. For neither the size of the government debt nor its change over time (the budget deficit) are well-defined economic concepts. Rather, they reflect the arbitrary choice of fiscal vocabulary, specifically in labeling government receipts and payments.

Three things follow from this. First, the debt and deficit criteria laid out in the Maastricht Treaty bear no intrinsic relation to fiscal prudence. Second, one can satisfy the Maastricht criteria simply by using the appropriate accounting terminology—something that observers of Italian entry into EMU may already have guessed. Third, the sustainability of EMU fiscal policies must be measured more objectively.

The bottom line is that generational imbalances across the eurozone gravely threaten the single currency's medium-term viability. The choice for nearly all EMU members is between tax hikes on a scale unprecedented in peacetime or drastic government spending cuts. Given the political weakness of most national governments, it is hard to see either choice being made. But the only other conceivable possibility—a sharp

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and unanticipated rise in inflation, which "solved" some fiscal crises in the past—also seems improbable, at least within EMU's constraints.

ADD IT UP

GENERATIONAL ACCOUNTS represent the sum of all future net taxes (taxes paid minus transfer payments received) that citizens born in any given year will pay over their lifetimes, given current policy. The sum of the generational accounts of all living generations indicates what those now alive will pay toward the government's bills. The government's bills, in turn, are equal to the sum (in today's prices) of all of the government's future purchases of goods and services plus its official net debt—its financial liabilities minus its financial assets, including public-sector enterprises. Bills not paid by current generations must be paid by future generations. This reflects the zero-sum nature of the government's intertemporal budget constraint: no matter what level of current deficit or debt a government reports, somebody, someday, will have to pay in net taxes what the government spends. Borrowing now to pay for government spending means paying more taxes later.

Generational imbalance results when the generational accounts of current newborns fall short of the growth-adjusted accounts of future newborns. The two accounts are directly comparable because they incorporate net taxes over entire lifetimes, allowing for population and economic growth at current official projections. If future generations face higher generational accounts than do current newborns, current policy is not only generationally unbalanced, it is also unsustainable. The government cannot continue to collect the same net taxes (adjusted for growth) from future generations as it would collect, under current policy, from current newborns without violating the intertemporal budget constraint.

This calculation imposes the entire fiscal adjustment needed to satisfy the government's budget constraint on those born in the future. It also delivers a clear message about the policy changes that governments need to achieve generational balance without foisting all the adjustment on to future generations—either through government spending cuts or tax increases, or a combination thereof. One can then calculate the precise size of the tax hike

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or spending cut necessary to make the growth-adjusted generational accounts of future generations equal those of newborns.

A critical feature of generational accounting is that the size of the future fiscal burden does not depend on how the government describes its receipts and payments. The same, unfortunately, is not true of the reported size of the government's official debt. Suppose that the Italian government chose to label the roughly 300 trillion lire in social security contributions in 2000 as "loans" instead of "taxes." Also suppose that instead of calling the future benefits it promises to pay current workers in exchange for these contributions "transfer payments," it called them "return of principal plus interest" on these loans minus an "old-age tax." This alternative wording would leave the Italian government reporting a deficit larger by 300 trillion lire, putting the overall deficit far higher than the Maastricht threshold of three percent of GDP. A year from now, the government's total debt would therefore be larger—but so would the generational accounts of currently living generations, since their future "old-age tax" would now be included in their accounts. Since both would be larger by the same amount, the burden on future generations would not change. The economic position of each generation would also be unaffected by this alternative set of labels; each worker would hand the government the same amount of money this year and receive from the government the same amount of money in the future. The only difference would be the words that the government used to describe these flows.

The fact that a government uses a given vocabulary to describe what it is doing does not make those words sacrosanct. Since each set of words results in a different measure of the deficit, which is correct? In economic theory, there is no correct measure. The concept of a deficit has everything to do with semantics and nothing to do with economics. Generational accounting not only dispenses with this arbitrary terminology; it is also forward-looking and comprehensive.

So what does it mean for Europe? The table on page 114 gives results for 14 countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, and Spain (10 of the 11 members of EMU) as well as Denmark, Sweden, and the United Kingdom (EU members outside the eurozone) and Norway (which belongs to neither). It shows 4 mutually exclusive ways these countries could

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Comparing the Numbers: How to Achieve Generational Balance

Country	*Percentage cut in government purchases*	*Percentage cut in government transfers*	*Percentage increase in all taxes*	*Percentage increase in income tax*
Austria	76.4	20.5	18.4	55.6
Belgium	12.4	4.6	3.1	10.0
Finland	67.6	21.2	19.4	50.8
France	22.2	9.8	6.9	64.0
Germany	25.9	14.1	9.5	29.5
Ireland	-4.3	-4.4	-2.1	-4.8
Italy	49.1	13.3	10.5	28.2
Netherlands	28.7	22.3	8.9	15.6
Portugal	9.8	7.5	4.2	13.3
Spain	62.2	17.0	14.5	44.9
Denmark	29.0	4.5	4.0	6.7
Sweden	50.5	18.9	15.6	41.9
United Kingdom	9.7	9.5	2.7	9.5
Norway	9.9	8.1	6.3	9.7

SOURCES: ALAN J. AUERBACH, LAURENCE J. KOTLIKOFF, AND WILLI LEIBFRITZ, EDS., *Generational Accounting Around the World* (1999); BERND RAFFELHÜSCHEN, "AGING, FISCAL POLICY, AND SOCIAL INSURANCES: A EUROPEAN PERSPECTIVE," MIMEO., UNIVERSITY OF FREIBURG, GERMANY, AND UNIVERSITY OF BERGEN, NORWAY, 1998.

achieve generational balance: cutting government purchases, cutting government transfer payments, raising all taxes, or raising income taxes (corporate as well as personal). The figures in the table indicate the immediate and permanent percentage adjustment needed, with the magnitudes of these adjustments indirectly measuring a country's generational imbalance. Education is treated as a transfer payment rather than a government purchase, and calculations are for all levels of government—local, regional, state, and central.

According to the table, 9 of the 14 countries need to cut all government spending on goods and services by more than 20 percent if they want to rely solely on such cuts to achieve generational balance. This group includes the three most important EMU members: Germany, France, and

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Italy. Austria, Finland, and Spain need to cut their noneducation purchases by more than half, as does Sweden; indeed, for Austria and Finland, the cut in spending needed is more than two-thirds.

Not all European countries suffer from generational imbalances. In Ireland, future generations face a smaller fiscal burden than do current ones, thereby allowing for growth. But Ireland is unique: it is the only country considered here whose government could spend more over time without unduly burdening coming generations. Four countries have only moderate generational imbalances in terms of spending adjustment: Belgium, Portugal, Norway, and the United Kingdom. But the last two of these are outside the eurozone.

Generational accounting produces a very different ranking of fiscal vulnerability from the conventional measures used in both the Maastricht Treaty and the 1997 Stability and Growth Pact, which judge fiscal stability by a nation's debt and deficit as ratios of GDP. The first column of the table shows that the EMU countries with the biggest fiscal problems are Austria, Finland, and Spain. But on the basis of Maastricht debt-GDP ratios, the three worst cases are Belgium, Italy, and the Netherlands.

Europe's generational imbalances are far from unique. For the sake of comparison, take the United States. Despite rosy projections of running "surpluses" well into the future, America in fact would have to cut government spending at all levels by 14 percent (or federal spending by 43 percent) to achieve generational balance. The figures for Japan and Brazil are 30 and 26 percent, respectively. Canada and New Zealand, by contrast, are in almost perfect generational balance. And before it recently introduced a pay-as-you-go social security system, Thailand could boast a figure of −48 percent, implying enormous latitude for government spending.

Fiscal policy and demographics explain these differences. For example, the United Kingdom has kept most transfer payments fixed over time in real (that is, inflation-adjusted) terms, thanks to a decision in the 1980s to break the link between state pensions and earnings inflation. Germany is still dealing with the colossal costs of reunification, while Ireland has a more youthful population than the European average.

One alternative to cutting government purchases is to cut transfer payments—e.g., by raising the age of retirement, as is being discussed

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now in the United States. Here the cuts required are somewhat smaller but nevertheless daunting for the majority of EMU members: over a fifth for Austria, Finland, and Holland; more than ten percent for Germany, Italy, and Spain. Again, only Ireland does not need an immediate cut to achieve generational balance.

These dramatic cuts would be very unpopular—as would tax increases, the third possible policy option. If Germany relied exclusively on across-the-board tax hikes, tax rates at all levels of government (federal, regional, and local) and of all types (value added, payroll, corporate income, personal income, excise, sales, property, estate, and gift) would rise overnight by more than 9 percent. In Austria and Finland, taxes would have to rise more than 18 percent, and in Spain more than 14 percent. If countries relied solely on income tax hikes, then Austria, Finland, and France would have to raise their income tax rates by over 50 percent. The requisite income-tax hikes in Germany and Italy would be just under 30 percent, compared with 10 percent for Britain and 21 percent for the United States. In contrast, Ireland could cut its income tax rates by about 5 percent before it needed to worry about overburdening future generations.

This problem will not go away. On the contrary, the longer countries wait to act, the bigger the adjustments will need to be. Britain, for example, could achieve generational balance with an immediate income-tax hike of just under 10 percent. But if it waits 5 years, that number will rise to 11 percent. After a 15-year delay, it will be 15 percent, and after 25 years, more than 20 percent.

HEY, BIG SPENDERS

THESE SHOCKING FIGURES mean that the majority of EMU countries have severe generational imbalances, even if their reported deficits do lie under the Maastricht limit of three percent of annual GDP. Yet none of the four scenarios above is likely to be realized by any government other than that of Ireland, given the immense political opposition to such retrenchment. The tax hikes or spending cuts would be, in most cases, unprecedented in peacetime. But whereas the losers would be today's taxpayers, the winners would be future generations.

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Not one of the key European governments has the political strength to effect such fiscal reform. In Germany, Gerhard Schröder's SPD-Green coalition is still struggling to restrain the growth of state pensions and social spending. In France, the left-wing coalition led by Lionel Jospin is even less likely to grasp fiscal nettles now that its talented finance minister, Dominique Strauss-Kahn, has resigned to fight fraud charges. In Italy, Massimo D'Alema's left-of-center coalition limps on in a newly repackaged government, crippled by the chronic divisions of the Italian party system. Total Italian tax revenues have already risen from 39 to 44 percent of GDP since 1990; it is hard to imagine any government surviving if it asked for more.

No key European government has the political strength to effect major reform.

A significant increase in economic growth could ease the fiscal positions of many European states. But this is unlikely to happen in the core European countries, given their relatively rigid labor markets. True, growth in the 11 EMU countries is generally forecast to be 3 percent in 2000. But with 10-year bond yields around 5.7 percent and inflation below 1.4 percent, real interest rates are very high by historical standards, compounding debt problems and stifling economic recovery.

What course can Europe take in the face of such tight fiscal restraints? Tinkering with the budget limits in the Maastricht Treaty and the Stability and Growth Pact may be possible for some countries, though not necessarily for those states whose generational accounts are most out of kilter. And the possibilities for creative accounting using traditional measures of debts and deficits have not yet been fully exhausted. Because the Maastricht criteria are based on measures of debt that are economically arbitrary, there is every reason to expect enforcement to be lax. Indeed, it already has been. As the German Bundesbank and others have pointed out, as many as 8 of the 11 EMU members had debts above the maximum 60 percent threshold (of debt as a percentage of annual GDP) when they qualified for entry in 1998.

A further possibility is that the countries with the most severe generational imbalances may exert pressure on the ECB to loosen monetary policy. For most of the twentieth century, after all, printing money was often the line of least resistance for governments having fiscal difficulties.

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As is well known, issuing money operates as a fiscal tool in three ways. First, it permits a government to swap a depreciated currency for actual goods and services. The private sector pays for this transfer to the government (or seigniorage) while inflation eats away at the money's real value. Second, raising prices by cranking up the printing presses reduces the real value of unadjusted government wage payments, transfer payments, and official debt repayments. Third, rising inflation permits a government to push taxpayers into higher marginal tax brackets if the tax system's degree of progressivity is not inflation-indexed. Historically, this is how many states have coped with severe fiscal imbalances: the defeated powers after World War I, for example, or Russia and Ukraine after the collapse of the Soviet economy.

Here lies the crucial point for Europe's single currency. Those countries under the most severe fiscal pressure will obviously wish to print money sooner and faster than those better situated. Yet the Maastricht Treaty effectively rules out printing money; Article 104 of the treaty (now Article 101 of the treaty establishing the European Community) and Article 21 of the Statute of the European System of Central Banks enshrine a strict "no bail-out" rule. Member states that hope to inflate away their debts will simply be turned away.

Much more likely is a series of collisions between national governments struggling to bring their finances under control and the ECB, which is constitutionally bound to maintain price stability as its primary objective and appears unconcerned by sluggish growth in large parts of the eurozone. The ECB is also likely to ignore the unpleasant monetary arithmetic implied by the budget problems of the member states and instead retort with some unpleasant fiscal arithmetic of its own by keeping its monetary policy strictly anti-inflationary.

If all countries were in the same predicament, they might resolve this conflict politically. But because there is such variation in the eurozone's generational imbalances, and indeed in their rates of growth and inflation, some countries will get into difficulties sooner than others. The political conflicts are easy enough to imagine. If European governments find it hard to agree about the edibility of British beef, it is not easy to imagine them acting in unison over generational imbalances in public finance. Even the recent proposal to introduce an EU-wide withholding tax on the interest from private

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savings foundered in the face of U.K. opposition. As was depressingly apparent at their Helsinki summit in December 1999, European leaders would rather dream the old Gaullist dream of military independence from America than face hard fiscal facts. If they do not set their generational accounts in order, there will be no European defense budgets in the future, much less a European army.

DREAMS DEFERRED

HISTORY SHOWS that monetary unions can be undone by fiscal imbalances. The difficulty lies in deciding which previous monetary unions most closely resemble EMU, since none does exactly. Some economic historians have sought to draw comparisons with the pre-1914 gold standard. But others see EMU as more like a national monetary union because there is a common central bank and no prescribed right to secede.

In truth, neither of these parallels is very illuminating. The gold standard was an informal system, without a single central bank, that states could always exit—like the European Exchange Rate Mechanism before the euro. On the other hand, comparing EMU with the United States, Italy, or Germany is unconvincing. In each case, political union came before monetary union. Nor is it helpful to compare currency unions between giants and dwarves (such as that among France, Andorra, and Monaco). Rather, the best analogies are with monetary unions among multiple states with only loose confederal ties and negligible fiscal centralization.

The Austro-Hungarian monetary union after 1867 is a useful example. The historian Marc Flandreau has pointed out that post-1867 Austria-Hungary combined the free circulation of goods and capital and a unified central bank on one hand with fiscal autonomy for each constituent state and its multiple nationalities on the other. (Unlike in the EU, however, there was a common army and foreign policy.) Both Austria and Hungary regularly ran quite large deficits until 1914, but these were absorbed with little difficulty by bond markets. Yet the dramatic increase in expenditure and borrowing in World War I caused inflation to accelerate and led ultimately to the breakup of the monetary union in 1917–18.

Another illuminating precedent is the Latin Monetary Union (1865–1927) between France, Belgium, Switzerland, Italy (including the

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Vatican), and later Greece. True, there was no Latin Central Bank, but the LMU did have a conscious political motivation, as the economist Luca Einaudi has argued. (A driving force was Félix Parieu of France, who dreamt of an eventual "European Union" with a "European Commission" and a "European Parliament.") But the costs to the other members of Italian fiscal laxity were high. The papal government financed its deficits by churning out silver coinage to reap high seigniorage profits. In short, it debased the coinage and allowed private agents to export it to the rest of the union—a flagrant breach of the rules. At the same time, the Italian government introduced largely unconvertible paper currency to finance its growing deficits, breaking the spirit if not the letter of the convention. The war of 1870 removed the political rationale of French continental hegemony; the only reason the LMU survived after 1878 was to avoid the cost of dissolution. Like the Scandinavian Monetary Union founded in 1873 by Sweden and Denmark, the LMU was belatedly pronounced dead in the 1920s.

History therefore suggests that asymmetric fiscal problems—often generated by war—quickly cause monetary unions between fiscally independent states to dissolve. The fiscal problems caused by bloated social security and pension systems could have a similar centrifugal effect on EMU, with welfare substituting for war as the fatal solvent.

EXIT STRATEGIES

THE PROBLEM is not simply that European states will continue to run deficits as conventionally measured. Past experience (for example, the German monetary union of Bismarck's day) suggests that monetary unions can coexist with federal fiscal systems where member states issue substantial volumes of bonds. Diverging levels of borrowing in the eurozone today may result in differing bond yields down the road—and the existence of yield spreads is not incompatible with monetary union. Markets cannot be forbidden to attach different default risks to different member states within a monetary union, just as companies issuing euro-denominated corporate bonds offer investors varying returns. Furthermore, high levels of state borrowing do not necessarily lead to inflation. Much depends on the international bond market's demand for high-grade

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sovereign debt; with more and more people living for two decades or more after retirement, that demand is likely to grow.

But generational imbalance does not simply imply that European states will run deficits. This method already assumes that they will. Rather, it points to an inevitable need to raise taxes, reduce expenditures, or print money to meet a rising burden of debt interest. But what happens when states like Austria, Finland, or Spain reach a political impasse on fiscal reform? Bond markets can absorb only so much debt before demand starts to wane. Legally, withdrawal from EMU is impossible. But history shows there is always an exit. If a country's only viable option is to print money and inflate away some of its liabilities, and if the European Central Bank abides by its "no bail-out" rule, then secession will almost certainly be considered. The question is what the costs would be.

First, higher interest rates would result in the short term, and much would depend on their impact on the government's debt-service bill. In this context, the different term structures of the various national debts are important: a country with a lot of short-term debt would gain much less from inflation. Once again, there are wide disparities among eurozone members. More than half of Spain's domestic debt is short-term, compared with 0.4 percent of Austria's.

Second, the exchange rate of the seceding currency would almost certainly weaken. This could help boost the economy by making exports cheaper. But legal tangles would also arise as creditors and debtors (foreign and domestic) fought over whether the presecession debts should be valued in euros or in the national currency. This could severely destabilize the seceding country's financial system, as well as those of other countries. Again, the implications would be greater for countries with more debt held abroad.

The political will to implement spending cuts and tax increases may be strengthened by these considerations. Still, history offers few examples of successful adjustments on the scale necessary in certain European countries today. What it does offer are several examples of monetary unions disintegrating when fiscal strains became incompatible with the unpleasant arithmetic of a single currency. In this respect, conventional measures of fiscal balance like debt and deficit ratios to GDP understate the magnitude of the eurozone's problems. Generational accounting suggests that EMU could degenerate—not overnight, but within the next decade.

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The Italians in Europe

G. Frederico Mancini

THE ITALIAN MIRACLE

NOW THAT the euro has been launched, it is a good moment to step back and remember just how European economic and monetary union (EMU) came into being. Fearing that German reunification would jeopardize the "Rhenish" balance on which Europe had rested until then, French President François Mitterrand and German Chancellor Helmut Kohl decided in 1990 that the only credible guarantee of an ongoing German allegiance to European unity would be the immolation of the deutsche mark—and with it the almost totemic reverence it elicited from the citizens of the Federal Republic—on the altar of a common European currency. To this effect, a committee chaired by the president of the European Commission, Jacques Delors, unearthed a long-forgotten report drafted in the early 1970s by the prime minister of Luxembourg and made the recommendations ultimately leading to the adoption of EMU in the 1992 Maastricht Treaty. It was a laborious compromise that the central bankers, with the German Bundesbank in the vanguard, did not welcome at all. They eventually resigned themselves to it, but only on one condition: the crossbar that EMU candidates needed to vault would be set so high that it would be inaccessible to those not blessed with a strong and stable currency. Thus EMU was effectively conceived as a dress made

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G. FREDERICO MANCINI, who planned to deliver this essay as the Robert Schuman Lecture at the University of New South Wales in Sydney, Australia, died last July. He had been the Italian judge at the European Court of Justice since 1988, taught at the Bologna Center of Johns Hopkins University's School of Advanced International Studies, and was Professor of Law at the University of Bologna. It is *Foreign Affairs'* honor to run this essay in his memory.

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to measure for a hard core of virtuous states: Germany, France, Luxembourg, and the Netherlands. But it was precisely the crossbar's prohibitive height that made the countries doomed to exclusion aware of the depth of the pit in which they would be left to vegetate—and prompted them to make extraordinary efforts to drag themselves out.

The effort made by Italy was more than just extraordinary; it was superhuman. It could not have been otherwise, given the gulf between the Maastricht requirements for budget deficits, national debt, and interest rates on one side and the corresponding indicators in that most fiscally profligate of European states on the other. But the Italians won their bet and stunned Europe in the process. If only for a few hours on Christmas Eve 1998, Italy, Europe's prodigal child *par excellence,* ranked as the thriftiest of the lot. When Italian Prime Minister Massimo d'Alema, an imperturbable former communist, announced that the Italian ten-year government-bond yield had dropped below that of its German counterpart for the first time in history, his voice rang with delight. That financial markets should regard Rome as tougher on inflation than the most reliable member states of the European Union (EU) was the sweetest reward for Italy's sacrifices that the country could have expected.

THERE'S NO PLACE LIKE ROME

WHY HAVE the Italians gone to such extremes to disabuse their fellow Europeans of their lack of confidence? Consider the hefty levy that the government christened "the Eurotax." Why did this tag, which in any other country would have induced a majority of citizens to take to the streets, persuade a traditionally evasion-prone people to fulfill its duty without too much grumbling? Why do European Commission opinion polls consistently show that 65 percent of Italians favor European over national decision-making, while the corresponding figures in the rest of the EU lag at around 53 percent and continue to decline? Why do 88 percent of young Italians define their country's political participation in a united Europe as "very" or "extremely" important, even though 51 percent of young people identify most closely with their city and only 5 percent with Europe?

All these questions can be easily reduced to one: Why don't Italians, unlike other Europeans, fear losing their national identity in a more

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closely knit and powerful EU? Tommaso Padoa-Schioppa, a member of the European Central Bank's executive board who delights in excursions outside his area of expertise, has tried to find an answer. He writes that Italy's fondness for Europe is "entirely consistent" with the nub of her cultural identity, namely the classic and religious universality of Rome. Furthermore, he believes, that identity has not yet fully crystallized. Cultivated Italians know how profound were the differences among their compatriots when the country was unified in 1861, or even in the aftermath of World War II. They also know that these cleavages remain vast. "States are," Padoa-Schioppa concludes, "while Europe becomes; and Italy offers Europe the example of a people whose identity is still in the making."

In all frankness, however, Padoa-Schioppa's explanation is utterly unconvincing. Although Rome's religious role does linger as a weighty component of Italian identity, the most culturally vital and militant wing of Italian Catholicism has looked for the past 50 years southward, to the developing world's destitute and downtrodden, while its attitude toward an increasingly secularized Europe has swung from coolness to ill-concealed aversion. And if it is really true that many prominent Catholics and the bulk of Italy's Christian Democratic Party strenuously advocated European integration, it is no less certain that their commitment has not been more fervent than that found north of the Alps. In the trinity of Europe's Catholic founders—Alcide de Gasperi, Konrad Adenauer, and Robert Schuman—the most devoted to Rome was the last, not the first. Thus Roman Catholic universality as a factor behind the dream of a united Europe is not specific to Italian culture—where, if anything, it competes with other dreams. Rather, it is shared by, and remains consistent with, a host of cultural identities throughout the continent.

Meanwhile, the "classic" universality of ancient Rome that Padoa-Schioppa cites when he refers to the merging of disparate nations and cultures under a common law has faded to the point of becoming invisible. Scores of literati, with Dante at the summit, evoked it during the long centuries of Italy's fragmentation and servitude, sometimes with a touching faith in its regenerating potential. But as those centuries glided on, every inch of the Italian landscape was being "trodden on, measured out, marched across, fought over, built on, ploughed up,

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transformed, [and] disciplined," as the literary critic Robert Dessaix has so trenchantly put it. The memory of Rome as the unifier of the world was lost or entirely irrelevant, if not to all the architects, then surely to the myriad masons, farmers, surveyors, soldiers, and pilgrims who forged that landscape. How then could it bear on the political aspirations of their present-day descendants? When Mussolini tried to revamp the myth in the 1930s as a psychological prop for his expansionist policy, his rhetoric sounded hollow, so devoid was it of pertinence to the national and international reality. Italians did not mind being offered an empire in the Horn of Africa as an outlet for the migrants whom America no longer accepted, but they were much too worldly to fall for the renaming of the Mediterranean as *mare nostrum* or the sight of the new Roman Tenth Legion, this time quartered in Bologna, drilling in anticipation for the conquest of a modern Masada.

DEATH OF A NATION

In contrast, Padoa-Schioppa's explanation is incomparably deeper and richer when it points to the attraction of a multicultural European Union for a 140-year-old state whose identity is still in the making. This formula is more apt than any other in accounting for Italy's europhilia. Defined by Prince Metternich with both accuracy and a whiff of disparagement as no more than a "geographical expression," Italy slowly coalesced to become transformed by the state into a nation run by a diminutive intellectual elite. It was a fragile nation, evincing at every major crisis that it had not become one out of free will but by virtue of the force of extraordinary circumstances, deaf to the kicking and screaming that its commands aroused. Yet this wobbly compound survived all the crises that it encountered. When its army, made up of soldiers who understood neither each others' dialects nor their officers' polished language, halted a seemingly relentless Austro-German offensive in 1917 a few miles north of Venice, many observers at home and abroad thought that the Italian nation had grown beyond the point of no return.

According to the controversial historian Galli della Loggia, the two tragic years following the armistice between Italy and the Allies during World War II proved this appraisal unduly optimistic. On

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September 8, 1943, the Italian state collapsed—or rather dissolved—in a wink. Left without clear orders, the army broke ranks, with most units getting hold of plain clothes and heading for home. Those who could not desert (some 82 generals, 13,000 officers, and 402,000 privates) surrendered without firing a shot to the less numerous German troops deployed throughout the country. The king, his family, and the prime minister fled Rome for shelter in the southernmost areas that the Allies had already occupied. All branches of public administration—the police, judiciary, transport, school, and postal systems—came to a halt.

Of course, Italy was not the only European state to experience a military debacle followed by a devastating breakdown in its national fabric. Nowhere else, however, did this breakdown occur in such outrageous ways. Nowhere else did the armed forces melt so thoroughly; nowhere else were the powers in charge, beginning with the royal family, so clearly paralyzed by the physical dread of coming face to face with the Germans. The demise of the state, in short, displayed a dearth of shared values, a spiritual vacuum, a collective weakness of character that was absolutely unprecedented and unparalleled. It proved that, in spite of initial appearances, the Italian state had not generated an organism capable of surviving as a nation. And had an Italian nation really existed, its framework was so precarious—or so threadbare—that it could not pass the crucial test of defeat in a major conflict. The title of della Loggia's book devoted to the events of 1943 could not have been better chosen: *La morte della patria*—where *patria,* as any dictionary will tell you, means "country" or "homeland," but is uttered with a thumping of the heart.

THE GRAND ILLUSION

As could be expected, della Loggia's thesis touched Italy's intelligentsia on the raw, stirring up a dispute that is still far from subsiding. Much too radical, charged the left. In particular, it accused the author of having practically ignored the fact that both state and society had been infected for 20 years by a regime whose incompetence and bombast had become a byword. In fact, that entity died in 1943 when the people realized that it was not worth the thumping of the heart. It was not the Italian nation but a parody of it, a tin god, that

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fascism had erected. When the cloud of dust raised by the fall of that tin god was dispelled, it became clear that the real *patria* was still alive—so alive, indeed, that hundreds of thousands of citizens, including many who had thrown away their uniforms in September 1943, rose up in arms to liberate it.

Such an argument, which blames Italy's military, political, and above all ethical catastrophe on fascism, may be comforting, but it does not hold water. As della Loggia himself points out, the Wehrmacht and the German administrative offices in charge of feeding the population did their job with all the effectiveness that the situation allowed when the Third Reich was overwhelmed in April 1945. If Nazism cannot be given sole credit for their performance, then by the same token fascism cannot be held entirely responsible for the dismal conduct of the corresponding Italian institutions. In either case, an explanation has to be sought at a much deeper level that delves into history, sociology, and anthropology.

Apart from that, the strategy of della Loggia's critics—distinguishing sharply between Italian society and the fascist tin god—is tantamount to presenting fascism as a sort of parasite from another galaxy that implanted itself out of the blue on an otherwise healthy organism. The fact that such a view was shared by Benedetto Croce, one of the great intellectuals of the first half of the twentieth century, does not make it less preposterous. Nor can it be said to be vindicated by the genesis, growth, and ultimate triumph of a widespread resistance movement. The partisans who constituted its backbone, half of whom the Communist Party controlled, fought not only a war of liberation against the German invaders but a civil war against their compatriots—who in no fewer numbers had joined the special corps set up by Mussolini's last-ditch republic in the north. In other words, fascism was inseparable from the bulk of the Italian people, an indigenous product of the social and cultural conflicts that Italy had experienced in the process of becoming a mass industrial society. That a substantial segment of the population took up arms against it was an extraordinarily positive development, but it does not prove that an Italian nation, a *patria* capable of inducing a common feeling of belonging in all layers of society, was still alive in 1945.

The events of the second half of this century also attest to this problem. In Italy, the advent of the Cold War opened a wide and apparently

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bottomless cleavage—unparalleled in Europe with the possible exception of France—between the Christian Democratic and Communist-led coalitions. The Christian Democrats, who were supported by a majority of the electorate and were therefore in government, aligned the country's foreign policy with Washington's wishes in ways so compliant that Italy was often described by the media as "the Bulgaria of the West." The Communist-dominated camp, which had gone so far as to recognize the legitimacy of Yugoslav claims to Trieste when Tito was still the second-most revered leader of the socialist bloc, was for almost 25 years an unswervingly loyal agent of the Soviet Union. Indeed, the flexibility, independence, and intellectual sophistication that Italy's Communists displayed in domestic politics emerged on the international scene only in 1968, when the entry of Warsaw Pact troops into Prague put an end to the dream of socialism with a human face.

In other words, neither of the forces commanding the allegiance of the Italians was able to interpret the national interest other than in terms of its identification with, and subordination to, the competing imperial interests of the two superpowers. More significant, this interpretation was internalized by their constituents. For at least three decades, the ideological tension among the rank and file was so acute that it permeated the daily life of ordinary people: in factories, universities, publishing houses, the film industry, and even recreational places like soccer stadiums, pubs, clubs, and ballrooms. The working class and its institutions organized themselves as a *Gegengesellschaft*, an alternative society, following the example of their German predecessors during the time of Bismarck's antisocialist laws—but possibly with an ever deeper feeling of estrangement and antagonism toward the rest of society.

DOING IT THEIR WAY

DURING the late 1980s the Cold War came to an end, and so did the last sequels of the political and social fractures that it had produced. Their withering away, however, made room for new and ugly forms of another cleavage that had dogged Italian society since the time of unification: the split between north and south. The sociological causes of the *Mezzogiorno*'s economic weakness—powerful crime syndicates, distrust of free enterprise, "amoral familism"—which thwart

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its full integration into the mature capitalist system of the north, are too well known to dwell on. What is important is the fact that the north's vexation over the *Mezzogiorno*'s inability to use effectively the huge resources that the government allots, and its annoyance over the less agreeable peculiarities of southern culture, had never turned into wholesale hostility or taken on openly racist overtones. All that those feelings produced was a scoffing attitude on the part of the northern populace and a tinge of condescension in polite society.

The Cold War opened a wide and bottomless cleavage between Italy's Christian Democrats and Communists.

This basic tolerance, however, evaporated at the beginning of the 1990s. Umberto Bossi, a classic populist demagogue who revels in coarse language and manners, was able to lay the foundations of a true-blue racist movement that soon snowballed beyond its place of origin in Lombardy and ended up invading the Po valley. In this area, the Northern League, as it is now called, polls 20 percent of the popular vote, controls a host of provincial capitals, and runs institutions (even a parliament and militia) that are coextensive with and aloof from those of the central state. As a daily nourishment for its constituents' animosity, the league proposes to cut all state aid to the south and demands that judges, prosecutors, and schoolteachers of southern origin be removed from the posts they occupy in the north. But its long-range goal, shrieked out or soft-pedaled according to political and electoral expedience, is the secession of the "Northern Nation" from Rome (that "robbers' den") and the southern "freeloaders."

The latter prospect sounds foolhardy enough, but foolhardiness turns into downright extravagance at the sight of the league's leadership striving to found its claim to the independence of the Po valley on ethnic grounds and borrowing some of the catchwords of the Parti Québecois or the Scottish Nationalist Party. A high-principled, hard-working north wanting to sever its bonds from a crime-ridden, bloodsucking south is, indeed, a proposition built on caricatures; as a political project it is not entirely devoid of credibility. But talk of a Celtic north seeking to shake off the yoke imposed on it by Latin Rome and a *Mezzogiorno* still showing traces of its Greek roots is a laughingstock—and Bossi's frequent references to the gallant deeds

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of Braveheart add a further touch of folly. But all this still does not prevent serious observers from realizing that Bossi's attempt to portray the league as part of a respectable, global phenomenon of ethnic revival serves an astute purpose: to confer legitimacy on the domestic racism that is the authentic fuel of the movement.

In short, the Italian community is not undergoing a process of aggregation that might lead it some day to condense and become an irreplaceable focus for group identity and political life. Italy may still be, as Stendhal wrote, the land where "the plant 'man' grows more vigorously than anywhere else"; it may go on seducing the world with the inborn taste, the versatility, the alertness, the *joie de vivre* of its people; in short, it may live up to its reputation as, in Dessaix's words, "an erotic powerhouse in a number of non-political ways." But the territory occupied by Italy does not, and probably will never, host a nation—in the sense that France and England, or even Germany and Spain, do.

ONE EUROPE, READY OR NOT

THIS CONCLUSION, however, does not detract from the basic soundness of Padoa-Schioppa's explanation for the spell that the prospect of a multicultural "United States of Europe" has cast over the Italian mind. If anything, it reinforces it. Europe can and should become a federal state, but that is as far as it ought to go. Europe must resist with great firmness any attempt, however noble, to color the notion of citizenship with that of nationhood or identity. Europe's multiple selves, its diversity (which even state borders inadequately define), together with its long past and ingrained sense of tragedy, are the factors that make Europe European. And they are the best tools it possesses to tackle the future. So why squander this wonderful capital? What advantages would it draw from becoming a nation that could make up for the loss of its components' sometimes uneasy but still fruitful rubbing of shoulders with one another while knowing that their roots, cultures, and primeval loyalties are different?

Italians understand all this—if not always at an intellectual level, then by instinct—and they like it. Although their hearts do not throb before Europe's blue-and-gold flag, they envisage Europe as a common home for themselves and the other 14 peoples of the EU. This home

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is bound to provide more and more comfort to its habitants, but it will also enforce discipline on them while protecting them from outside menaces. They do not want a *patria* replacing the one lost in 1943, which Italians were unable or unwilling to reconstruct at the end of the war. What they want is an overarching state, or at the very least a polity in which cooperation among existing states is no longer based on inevitably shaky and malleable intergovernmental agreements but is institutionalized in an all-encompassing network of supranational powers.

Throughout history, Italy's experience with nationhood was far from happy.

The reason why Italians do not long for a new *patria*—and are keen on Europe precisely because it does not aim to become one—should now be clear. Italy's experience with nationhood was far from happy: 60 years of goading and pushing by a nominally liberal but basically authoritarian ruling class, followed by 20 years of tyranny and bravado, and at the end a disgraceful implosion. Even more important, however, is that as political animals, the Italians have always liked and still like littleness. The social unit where they feel snug and devote energy to the general welfare is their city—and sometimes even their quarter (think of Siena and its *Palio*). Indeed, was not Italy at its most glorious during the Middle Ages and the Renaissance, when it had not one capital city but ten, all of which were usually at war with one another? Today, intercity warring is of course confined to soccer stadiums and is no longer an Italian peculiarity. In Italy, however, something of the old spirit, a passionate attachment to the city colors, seems to prevail over the other, more sophisticated causes that social scientists have identified in studying this phenomenon.

If Italy's lack of interest in the development of a European nation has deep historical roots, its partiality toward the establishment of a European state, or at least a strengthening of the EU, stems from strictly practical considerations. In the minds of its people, Italy has been so poorly run from Rome that almost any alternative would be acceptable. And the European alternative has paid off. Whereas most of Italy's negative experiences have been homegrown, most of the positive ones—above all the financial cleanup but also increased competition, reduced red tape, and growing privatization—have

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been imposed or prompted by Europe. On the other hand, Italians' scant confidence in their leaders and their parties leads them to think that both will have to be kept under constant surveillance if Italy is to avoid the happy-go-lucky policies that caused its financial disaster at the end of the 1980s. They are also astute enough to realize that the effectiveness of that surveillance will be directly proportional to the degree of deterrence and repression wielded by European institutions. It is as simple, and as sad, as that.

This thesis boils down to a straightforward proposition: Italy has a lot to gain from participating in Europe's integration, especially if the EU shapes itself into a federal mold unencumbered by identity concerns. But is there anything—besides being an "erotic powerhouse"—that Italy can contribute to the European venture?

At the institutional level, two highly successful features of the Italian system of government could interest the designers of European federalism. One is the German-speaking province of South Tyrol, which enjoys rights so generous and so faultlessly respected as to stifle the tensions that degenerated into terrorism in the early 1960s. These rights, however, presuppose and are intended to perpetuate a rigid separation between Germanophones and Italophones. So although the Tyrolian example has no general value for Europe—whose federalism should strive to open new and broader avenues between different cultures that have nothing to fear from one another—it may help those cases where a linguistic minority feels besieged or otherwise threatened. Considering that such cases are bound to multiply as a consequence of EU enlargement, this would by no means be a trifling contribution.

The second feature is a 1993 reform of Italy's policymaking machinery. Its authors created the most comprehensive type of social partnership on the continent, involving trade unions, employers' associations, and interest groups in political decision-making, thereby ensuring a wide social consensus for government policy. It is unquestionable, for instance, that if the business world and the labor movement had not been allowed to negotiate with the government over the policies behind the financial cleanup, their constituents would not have accepted the sacrifices required by workers with the aplomb they actually showed.

This example clearly demonstrates why and how the Italian model of social partnership could also benefit Europe. Even at this stage of

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integration, the aloofness of Brussels and the diversified nature of Europe's "general public" constitute a serious threat to the legitimacy of the European Commission and the Council of Ministers—and hence to public acceptance of the choices they make. In a statal Europe, where those choices would need to be more incisive and embrace wider areas, strengthening the central government's legitimacy would become imperative. Indeed, it would be a matter of life and death in a more democratic polity, which would face the resistance of a large minority and need to laboriously put down its roots. Under such circumstances, an intimate involvement in Europe's policymaking mechanisms of large and small interest groups, whose primordial function is to organize their constituents' consent, could amount to a valuable asset.

THE GOOD EUROPEAN

FINALLY, the most precious asset that Italy can bring to an EU advancing toward statehood coincides with what some of the country's friends regard as its greatest liability: the frailty of its identity, the trouble it has in shaping up as a nation and asserting its national interest independently from (or in opposition to) the constraints derived from its wider political participation. Apart from the damage caused by its frequent infringements of EU rules—a product of the hopeless inefficiency of its lawmaking and administrative bodies—Italy is the only large member state that has never triggered a major crisis or impasse in European integration. In comparison with France (remember de Gaulle's high-handed "empty-chair" policy?), Britain (remember the Iron Lady's petulant "I want my money back"?), Spain (ever heard of its adamant refusal to consider a reduction of European aid?), and since its last election, Germany, Italy's record for European loyalty is impeccable.

Does this record open for Italy the possibility of becoming Europe's unifier? Alas, this role is not likely to materialize. To play a unifying role, a country must carry weight in ways other than those that make Italy the exciting place it is. Before all else, it must possess an incisive foreign policy, a tool that Italy lacks precisely because its feeble identity prevents it from asserting its national interest with the required energy. The real engine of European integration so far has been the Paris-Bonn

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axis, notwithstanding the less-than-impeccable record of France and, more recently, Germany. True, Paris and Bonn could always rely on Italy's support when they decided to move forward. No less true, such support has sometimes proved invaluable. But is this not tantamount to admitting that, so long as European politics is dominated by the ethic of might, Italy is doomed to play second fiddle?

Having to play second fiddle should not cause frustration, however. Viewing the ethic of might as an impermeable monolith is a fallacy. Despite the intransigence of totalitarian regimes and the chattering of cultural relativists, half a century of treaties, struggles, and debates favoring human rights has eroded that ethic. As General Augusto Pinochet's vicissitudes have proven, some tenets of international law that we were once taught to regard as perennial are now clearly fraying at the edges. Why could not European law and politics, which have far more aggressively tried to curb the notion of sovereignty and might, grow more and more responsive to a culture like Italy's, so obviously uninterested in either notion? Italy's limited political weight will preclude its leading the way to European unification, but Italy's passion for Europe may in time contaminate its partners.

On the first of January 1999, as I was watching the ceremony that inaugurated the euro, those glowing faces, those unusually vigorous handshakes, the barely concealed pride gave me the impression that some sort of Italian contamination was under way. Perhaps facts will prove me wrong, but they will be followed by other facts and those could vindicate the accuracy of my fancy. In any event, aren't professors, even if they also happen to be judges, entitled to a bit of daydreaming?

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Reviews

CORBIS-BETTMANN

Liberal imperalists: Theodore Roosevelt leading the Rough Riders, Cuba, 1898

The only interventions that achieved anything worthwhile in the 1990s were conducted outside U.N. auspices.

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Review Essay

The Empire Strikes Out

Why Star Wars Did Not End the Cold War

David Greenberg

Way Out There in the Blue: Reagan, Star Wars and the End of the Cold War. BY FRANCES FITZGERALD. New York: Simon & Schuster, 2000, 575 pp. $30.00.

When it comes to Cold War politics, the early 1980s appear, in retrospect, an embarrassment all around. The American left earnestly warned that with Ronald Reagan in the White House, nuclear annihilation was plausible or even likely. Self-styled Cassandras tried to roust a complacent public with overwrought doomsday polemics such as Jonathan Schell's *The Fate of the Earth* (recently described by Michael Kinsley as "the silliest book ever taken seriously by serious people") and the TV movie *The Day After.*

The right acquitted itself no better. Pointing to an alleged U.S. "window of vulnerability," Reaganites ranted as if Soviet world domination were imminent, matching the left's hysteria with their own bombastic rhetoric and films such as *Red Dawn* in, of all years, 1984. "I believe we are seeing the same situation as when Mr. Chamberlain was tapping the cobblestones of Munich," Reagan said, implausibly, during the 1980 presidential campaign. In dealing with the Soviet Union, both sides ignored John F. Kennedy's advice: the left wanted to negotiate out of fear, while the right feared to negotiate.

Today, thanks to the collapse of the Soviet empire, we know better. The Soviet Union, we have learned, was already in hopeless shape by the 1980s. As Americans aimed to counter what they perceived as expanding Soviet power, the Soviets, although waging war in Afghanistan, were beginning to retrench. In other words, the

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United States probably need not have let the early 1980s become, as Frances FitzGerald puts it in her new book, *Way Out There in the Blue,* "the worst period of friction in U.S.-Soviet relations since the Cuban missile crisis of 1962."

Way Out There in the Blue seeks to explain a troubled chapter in American history that now seems surprisingly distant—tumbling backward as if it had fallen from a speeding truck. FitzGerald, the author of a prizewinning 1973 book about Vietnam, *Fire in the Lake,* focuses on three touchstones of the era: the role of Ronald Reagan; the debate over his proposed Strategic Defense Initiative (SDI, or "Star Wars," the plan to develop a laser-based system to protect the United States from nuclear missiles); and finally, the events that led Reagan, on leaving office in January 1989, to declare, "The Cold War is over." FitzGerald's overall view is disdainful. She portrays Reagan as an inept simpleton unqualified for the presidency. She considers Star Wars a silly pipe dream that caught on only because of the arrant cynicism of Reagan's coterie. And, most important, she rejects the now-widespread claim that Reagan's military buildup in general—and Star Wars in particular—forced the Soviet Union to bankrupt itself into extinction.

On this last count in particular, FitzGerald is quite right, but only toward the end of this ponderous and muddled tome does she get around to making her case. A historian's duty is to use her perspective on a bygone era to decide which events turned out to be significant and which insignificant, and to include the former and omit the latter. Instead, FitzGerald opts to be encyclopedic. She rehashes, in detail, every argument or story that bears remotely on her topic, from well-known news events such as the Iran-contra affair or David Stockman's travails as Reagan's budget director to sideshows such as the internecine squabbles among second-tier Reagan administration officials. Her approach does have at least one virtue: like a diligent research assistant, FitzGerald has gathered a lode of material (mostly from previously published books and articles) to use in making sense of Reagan, SDI, and the Cold War's passing—and the modest impact of the first two on the third. The reader leaves *Way Out There in the Blue* feeling that the vaunted threat that Star Wars posed to Moscow was little more than a phantom menace.

GOING DUTCH

At the center of it all stands Reagan, the gee-whiz Midwestern boy and Hollywood leading man who became a tribune of the new right. For a central character, however, Reagan is a curiously ghostly presence. Like many observers before her, FitzGerald sees Reagan as an insubstantial man, a uniquely passive and disengaged chief executive, an innocent who coasted through life detached not just from policy debates but from reality itself. To support this view, she deftly enlists damning quotations from those who worked with him most closely, including John Sears, David Stockman, Alexander Haig, Michael Deaver, and many others. She quotes Martin Anderson, an economic adviser to the president, comparing Reagan to "an ancient king or Turkish pasha" who "just responded to whatever was brought to his attention and said yes or no, or I'll think about it."

Like previous Reagan-watchers, FitzGerald chalks up the president's

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CORBIS-BETTMANN

To dream the impossible dream: Vice President George Bush, President Ronald Reagan, and Defense Secretary Caspar Weinberger at the Pentagon, 1987

detachment from reality to his Hollywood past. As a celebrity, she writes, he lived in "a magical realm somewhere between the real world and fiction." Reagan saw the presidency as one big movie. Again FitzGerald marshals incriminating corroboration from Reagan's associates, such as Chief of Staff Donald Regan, who says that Reagan viewed his daily schedule like a "shooting script" and rarely fretted about his presidential burdens because he had been "learning his lines, composing his facial expression, hitting his toe marks for half a century."

All this adds up to an unflattering portrait. Schizoid behavior ranks as a fairly serious defect in a man who purports to lead the free world. FitzGerald shows how Reagan's feeble grasp of policy could jeopardize efforts to achieve important goals and how his childlike penchant for telling frivolous anecdotes in momentous situations could dash his credibility with foreign leaders. During his December 1987 summit with Mikhail Gorbachev, for example, Reagan regaled the Soviet leader with a story, which he had read in *People*, of a 1,200-pound man who got stuck in a doorway. At another point in the "negotiations," Reagan recited threadbare anti-Soviet wisecracks, prompting Secretary of State George Shultz to chastise him afterward: "Mr. President, that was a disaster. That man is tough. He's prepared. And you can't just sit there telling jokes."

FitzGerald does not consider Reagan capable of generating practical ideas, so his successes, in her telling, occur only by

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accident. She mocks him for his belief that a summit consists of the two superpowers' leaders sitting down face to face, dispensing with niggling technical minutiae and fashioning common goals. As it happened, though, something like this actually occurred during Reagan's 1985 encounter with Gorbachev in Geneva: the two men left the stalled talks for a walk to a nearby pool-house, forging a bond of trust in the process. The summit yielded little substantive progress, but the psychological breakthrough was dramatic. Presented with this interpretation, FitzGerald cries foul, objecting that the leaders' sashay had been scripted. But so what? Sensing a thaw in the Cold War, the American public indulged in a little optimism and applauded Reagan's new flexibility, thereby generating more of it.

To explain Reagan's successful summitry, FitzGerald trots out a claim often made by his detractors: that the Great Communicator turned failure into triumph by dint of his magisterial public-relations operation. But she ignores the possibility that Reagan's personal approach to summitry turned out to be (at least in this instance) wise. By suggesting that Reagan's achievements were "only" the product of image-making, FitzGerald shortchanges them. Image is often a component of substance. For example, even if the Geneva summit produced no quantifiable gains, the perception of progress warmed the atmosphere between the superpowers, allowing trust to take hold and relations to improve. Such gains were real, not illusory. But those who scorn the role of perceptions in politics—who think it is less important or legitimate or "real" than the role of, say, policy analysis—will remain resentful of Reagan's achievements.

LOST IN SPACE

FitzGerald considers Star Wars the perfect issue to understand Reagan's presidency—not because the program was of great policy consequence but because it makes a rich metaphor. FitzGerald views the notion that a laser-rigged space umbrella might someday protect the United States from nuclear missiles as pure fantasy. Her reasons will be well known to anyone who followed the Star Wars debate in the 1980s. For one thing, she asserts, most scientists believed that no such anti-ballistic missile system could ever be deployed. Further, even a working antimissile system would not render nuclear weapons "obsolete," as Reagan dreamed, since submarines and airplanes could still deliver apocalyptic payloads. Finally, merely considering deploying such weaponry was foolish, since it would upset the delicate balance of mutual assured destruction that had deterred nuclear strikes for 40 years.

These facts did nothing to impede Reagan's quest for such a system because, FitzGerald argues, the president lived in a celluloid dream-world. He had long been enchanted with the notion of a protective shield, despite the devastating scientific and strategic arguments against it, because he had seen it work in the movies—specifically, in Alfred Hitchcock's 1966 *Torn Curtain,* in which Paul Newman's character speaks of an antimissile device that "will make all nuclear weapons obsolete and thereby abolish the terror of nuclear warfare." A variation of that very sentence, FitzGerald notes, appeared in the 1983 speech in which Reagan first floated the idea of Star Wars—another instance of a president hopelessly in thrall to his fantasies.

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According to FitzGerald, the 1983 speech "appalled defense experts in and out of the administration." So why did Star Wars go forward? FitzGerald suggests that different administration officials exploited Reagan's enthusiasm for their own purposes. Some, such as Shultz, saw it as a bargaining chip for arms-control talks with the Soviet Union; by abandoning a nascent SDI, the United States could secure more important Soviet concessions. Other officials, mainly at the Pentagon, envisioned not the shelter for the American populace that Reagan imagined but a limited system designed to defend just U.S. missiles (thus preserving the option of a wartime counterattack). Still others, including neoconservatives such as Richard Perle, hoped that SDI would undermine the 1972 Anti-Ballistic Missile Treaty, which they had always believed foolishly hamstrung the United States. All three groups, FitzGerald suggests, knew Star Wars was a chimera. But like the emperor's subjects afraid to say he had no clothes, each faction proceeded as if a viable system lay within reach because no one wanted to confront the president with the truth.

FitzGerald's explanation is clever, but it overlooks a more plausible reason for the momentum that Star Wars gathered: some people thought Reagan had actually come up with a good idea. In his memoir, *An American Life,* Reagan articulated his position succinctly:

> I never viewed SDI as an impenetrable shield—no defense could ever be expected to be one hundred percent effective. … [But] if it worked and we then entered into an era when the nations of the world agreed to eliminate nuclear weapons, it could serve as a safety valve against cheating—or attacks by lunatics who managed to get their hands on a nuclear missile. And, if we couldn't reach an agreement eliminating nuclear weapons, the system would be able to knock down enough of an enemy's missiles so that if he ever pushed a button to attack, he would be doing so in the knowledge that his attack was unable to prevent a devastating retaliatory strike.

FitzGerald quotes this passage to scoff at what she considers the incoherence of Reagan's position. But the above statement does represent a coherent position—one that neither I nor, more important, many scientists endorse, but one that nevertheless must be taken seriously.

Perhaps the strongest proof of the viability of Reagan's position is that, after going underground for a decade, SDI is now making a comeback—and the ailing Reagan has nothing to do with it. This spring the Clinton administration will decide whether to try to deploy a national missile defense system by 2005. No Hollywood dreamers are leading the charge. Rather, the strides that North Korea and Iran have made in developing long-range missiles remind us that rethinking nuclear strategy remains vital. Nor is the Cold War as over as we like to assume. Russia's future remains perilously uncertain, and it still harbors, lest we forget, a vast nuclear arsenal. There remain persuasive arguments for opposing SDI—most important, the improbability that such a system can ever be realized, as underscored by January's unsuccessful test of antimissile technology—but the arguments on its behalf should be rebutted, not ridiculed.

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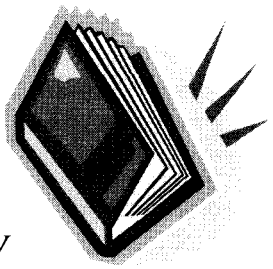

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THE PHANTOM MENACE

Apart from its renewed policy relevance, the debate over SDI matters because of the historical question of what role (if any) it played in ending the Cold War. According to the conservative view, which seems to have acceded to the status of conventional wisdom, Reagan's refusal to barter away his cherished program at the 1986 summit in Reykjavik, Iceland, was the straw that broke the Soviet camel's back. Facing a cripplingly expensive arms race not only in offensive armaments but also in space-based defensive weapons, Gorbachev realized his country could not compete and folded.

There are several problems with this "vague and unexamined" thesis, as FitzGerald calls it, and the best part of her book is her thorough debunking of it. Most important, it attributes Gorbachev's revolutionary changes to American behavior. In fact, well before Reykjavik, many in the Soviet Union knew that their system needed a radical overhaul. Even Reagan, for all his early bellicosity, said in June 1982 that Soviet economic growth had been declining since the 1950s and might soon spell crisis. With the death of the hawkish Leonid Brezhnev in November 1982 came an opportunity for reform—one seized upon only after two more senescent Soviet leaders came and went.

Gorbachev—"a man in a hurry," as FitzGerald calls him—took power in March 1985 and got right to work. A month later, he unilaterally suspended the deployment of Soviet intermediate-range nuclear forces (INF) in Europe, offering to make the cessation permanent if the United States did likewise. He began shifting government rubles away from the military, publicly assailed the failures of the socialist economy, and promised economic and political reform. The next year, at the Communist Party Congress, he renounced the doctrine of fundamental conflict between socialism and capitalism, calling for global cooperation to avoid nuclear and ecological disaster. For the rest of his tenure, he made news practically every few months with another bold reform in the areas of perestroika, glasnost, and arms control. He made it clear he wanted out of Afghanistan, his country's Vietnam-like quagmire. Based on even the incomplete knowledge we now possess about what was going on inside the Soviet Union, it is clear that in the history of the Cold War's end, the Soviet role was far more critical than the American.

Even on the American side, though, FitzGerald provides ample evidence to distrust the thesis that Star Wars and the early 1980s arms buildup (actually begun by President Carter in his post-Afghanistan anger) toppled the Soviet Union. Reagan campaigned in 1980 and began his presidency as the most hawkish of Cold Warriors, prompting the chilliest U.S.-Soviet relations in almost 20 years. Within the administration, hard-liners such as Defense Secretary Caspar Weinberger held sway, passing mammoth defense budgets and spewing martial rhetoric. But as early as 1982, when Shultz replaced Haig as secretary of state, that began to change. At that point, Shultz wrote, "Relations between the two superpowers were not simply bad; they were virtually non-existent." Shultz immediately pressed to make arms control a priority. As Reagan's 1984 reelection campaign approached, Shultz's conciliatory agenda won support

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from the White House image custodians, who worried about Reagan's reputation as a warmonger. As recently as 1983, after all, he had called the Soviet Union "the evil empire." But the new "Morning in America" Reagan happily revamped his oratory: "1984 is the year of opportunities for peace," he now promised, calling for "constructive cooperation" between the superpowers and "credible deterrence and peaceful competition" instead of menacing bluster.

After Reagan's reelection, Shultz, supported by National Security Adviser Robert McFarlane and the arms-control wise man Paul Nitze, revived the summitry that American and Soviet leaders had successfully practiced from the 1963 nuclear test-ban treaty through the 1970s strategic arms limitation talks. On the whole, the Americans found the new Kremlin surprisingly forthcoming. Geneva accelerated the progress. Then the 1986 Reykjavik summit produced an apparent setback. U.S. negotiator Max Kampelman fought back tears as a shaken Shultz revealed that a comprehensive agreement had foundered when Gorbachev insisted that Reagan abandon Star Wars and Reagan refused. But in retrospect, the talks were an important step—not because Reagan drove a hard bargain on SDI but, to the contrary, because he proved willing to compromise on so much else. The real news of Reykjavik, buried under the headline of the last-minute collapse, was that the two nations were not so far apart.

The next key step came, FitzGerald recounts, when Gorbachev met in December 1986 with the dissident physicist Andrei Sakharov, whom he had recently released from exile. Sakharov told the Soviet leader not to worry about Star Wars, predicting that the impracticable technology would eventually "die on its own." Persuaded, Gorbachev offered in February 1987 to separate the Star Wars negotiations from arms-control talks. The 1987 INF treaty and continued improvement in U.S.-Soviet relations followed apace. Thus, it is fair to note that the United States made a contribution to the Cold War's end—but in the area of arms control, that contribution was the revival of summitry, not the threat of Star Wars.

If Star Wars deserves scant credit for ending the Cold War, how about Reagan? FitzGerald, for whom Reagan's successes are always accidental and illegitimate, is stingy with her praise. Inveterate Reagan foes who dismiss him as a lightweight or a fantasist will remain baffled by his accomplishments. But for all his militancy, Reagan did come to recognize—belatedly, yet sooner than most members of his administration—that Gorbachev was for real, that negotiations could ease tensions, and that by the 1980s the United States had little reason to fear Soviet expansion. Whether it was perspicacity or dumb luck, Reagan appreciated that there was a new world dynamic and managed to break from the dogmas he had long propagated. On that score, he was acting not fancifully but with the utmost realism.

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Review Essay

Paving the Road to Hell

The Failure of U.N. Peacekeeping

Max Boot

Deliver Us From Evil: Peacekeepers, Warlords, and a World of Endless Conflict. BY WILLIAM SHAWCROSS. New York: Simon and Schuster, 2000, 400 pp. $27.50.

The United Nations started the 1990s with such high hopes. With the end of the Cold War, the U.S.-Soviet rivalry that had paralyzed the Security Council had become a thing of the past, supposedly freeing the U.N. to become more assertive. The Gulf War, the U.N.'s second-ever military victory, seemed to vindicate those hopes—even though, as in the Korean War, the baby-blue banner was used as a mere flag of convenience for an American-led alliance. President Bush spoke of a "new world order." Candidate Clinton talked about giving the United Nations more power and even its own standing military force.

It is hard to find any U.S. officials making similar suggestions today, only a decade later. They have been chastened, presumably, by the U.N.'s almost unrelieved record of failure in its peacekeeping missions.

The United Nations itself has recently released reports documenting two of its worst stumbles. According to these confessions, U.N. peacekeepers in Rwanda stood by as Hutu slaughtered some 800,000 Tutsi. In Bosnia, the U.N. declared safe areas for Muslims but did nothing to secure them, letting the Serbs slaughter thousands in Srebrenica. The organization's meddling was worse than useless: its blue-helmeted troops were used as hostages by the Serbs to deter a military response from the West. Presumably, Secretary-General Kofi Annan—who was head of the U.N.'s peacekeeping department at the time—hopes that an institutional mea culpa now will wipe

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the slate clean and allow the organization to play a more vigorous role in the future.

The arrival of *Deliver Us From Evil*, a new book by British journalist William Shawcross, provides a good opportunity to ponder whether this is a realistic expectation. Shawcross presents a highly readable, if at times repetitive and scattershot, chronicle of U.N. diplomacy and humanitarian interventions in the past decade. Though predisposed to favor U.N. peacekeeping—much of this book is written from the viewpoint of Annan, with whom the author traveled the world—Shawcross is too honest a reporter to gloss over its failures. He even concedes that humanitarian aid may sometimes do more harm than good by prolonging a war.

BLAME GAMES

Despite the failures he chronicles, however, Shawcross' faith in U.N. peacekeeping—and in Annan—does not appear to have been seriously shaken. Although the book is generally sober, at points Shawcross gives in to giddiness, as when he describes the secretary-general as "the world's 'secular pope'" and "the repository of hope and the representative of such civilized standards of international behavior as we have been able to devise." At another point, Shawcross quotes (with no discernible irony) a U.N. official who describes the peacekeeping mission to Cambodia as "a model and shining example" because of the election staged there in 1993—never mind that Hun Sen promptly usurped power after losing at the ballot box.

Wherever possible, Shawcross blames such messes on the permanent members of the Security Council, whom he indicts for blocking the expansion of these missions. He dutifully quotes U.N. bureaucrats who complain that they did the best they could with inadequate resources, and he suggests they be given more support in the future.

He's being too kind by half.

The failures of the United Nations should not be blamed just on the great powers. They owe as much to the mindset of U.N. administrators, who think that no problem in the world is too intractable to be solved by negotiation. These mandarins fail to grasp that men with guns do not respect men with nothing but flapping gums. A good example of this incomprehension was Annan's opéra bouffe negotiations with Saddam Hussein. In 1998, Annan undertook shuttle diplomacy to Baghdad, reached a deal with Saddam to continue weapons inspections, and declared him "a man I can do business with." Almost immediately Saddam flouted his agreement with Annan. But even then the secretary-general told Shawcross, "I'm not convinced that massive use of force is the answer. Bombing is a blunt instrument."

Annan has actually been more pragmatic than many of his predecessors. But his outlook is inevitable in anyone who has spent years working at Turtle Bay. Just as the U.S. Marine Corps breeds warriors, so the U.N.'s culture breeds conciliators.

A large part of the problem is that Annan and his staff work not for the world's people but for their 188 (and counting) governments. Annan proclaimed last fall that sovereignty is on the decline—and so it is, everywhere except at the U.N. There, at least in the General Assembly, all regimes, whether democratic or despotic, have an equal vote. Annan and other employees must be careful not to unduly offend any member state, and so

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they wind up adopting a posture of neutrality among warring parties, even when one side (such as Serbia or Iraq) is clearly in the wrong.

When the United Nations does use force, the results are often pathetic. The various national contingents that make up U.N. peacekeeping operations—Bangladeshis, Bulgarians, Brazilians, and the like—are chosen not for martial prowess but because their governments are willing to send them, often for no better reason than to collect a daily stipend. The quality of these outfits varies widely: Shawcross writes, for instance, that the Bulgarians in Cambodia were "said to be more interested in searching for sex than for cease-fire violations." Trying to coordinate all these units, with their incompatible training, procedures, and equipment (to say nothing of languages), makes a mockery of the principle of "unity of command." Little wonder that blue helmets strike no fear in the hearts of evildoers.

Of course, as Shawcross repeatedly points out, this sorry state of affairs would change instantly if only the United States and its allies would commit more muscle to U.N. operations. But why should great powers limit their freedom of action by giving bureaucrats from not-so-great powers control over their military interventions?

ENTER AMERICA

At the end of the 1990s, then, the United Nations remains what it has always been: a debating society, a humanitarian relief organization, and an occasionally useful adjunct to great-power diplomacy—but not an effective independent force. This does not mean we should kill the organization. But it should temper the high expectations of the U.N.'s more idealistic supporters.

It is worth noting that the only interventions that achieved anything worthwhile in the 1990s were conducted outside the U.N. For example, although the Balkans today are not a multicultural paradise, they are relatively peaceful: mass murder has been halted, refugees returned. All this was achieved through great-power action and traditional balance-of-power calculations—both anathema to the Wilsonians at Turtle Bay. In Bosnia, a Croat onslaught and NATO bombing and artillery bombardment combined to roll back Serb forces and to push Slobodan Milošević to cut a deal. In Kosovo, a rebel ground offensive, NATO air power, and the threat of a NATO invasion again bludgeoned Belgrade into submission. The U.N.'s role was negligible in both cases.

Given his own history, Shawcross is surprisingly receptive to unilateral U.S. action. He made his name, after all, with *Sideshow,* a 1979 book excoriating U.S. attacks on North Vietnamese bases in Cambodia as a "crime" and blaming Henry Kissinger for the Khmer Rouge takeover. In *Deliver Us From Evil,* the same author now describes the United States as a "benign force." This is progress, though Shawcross still seems to put less faith in U.S. leadership than in "a new global architecture" made up of international criminal courts and unenforceable treaties like the ban on land mines.

Such views will strike some realists as woolly-headed. But are realists any more realistic when they deny the need for "humanitarian" interventions? Buchananite isolationists and Kissingerian realpoliticians argue that we need to respect state sovereignty by staying out of other countries' internal affairs. They speak reverently of the 1648 Treaty of Westphalia, and

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warn that we tinker with the inviolable state system it created at our peril.

SORRY STATES

But most of the world's nations do not have Westphalian legitimacy in the first place. They are highly artificial entities, most created by Western officials in the twentieth century. Now many of these offspring of European empires, from Indonesia to Yugoslavia, are breaking apart. There is no compelling reason, other than an unthinking respect for the status quo, that the West should feel bound to the boundaries it created in the past. There is even less reason why the West should recognize the right of those who seize power within those borders to do whatever they want to the people who live there—just as long as no one crosses the artificial line separating that domain from the one next door. If taken to its logical conclusion, this sovereignty-centered attitude leads to semantic silliness. On the day in 1991 when Germany recognized Croatia's independence, did this suddenly transform what had been, the day before, a Serb attack on a rebellious province—an internal matter—into a Serb attack on a sovereign state—an action presumably worthy of international intervention?

Western states certainly never felt bound to respect the sovereignty of others in the past. Surely Prince von Metternich, Kissinger's hero, would have lost no sleep over the violated sovereignty of Afghans or Zulus. Sovereignty has never been an absolute right, but one "for them's that can defend it" (or can get others to defend it for them). When, in the nineteenth century, the Ottoman and Chinese empires grew too weak to enforce their proclaimed borders, the great powers of Europe carved them up into zones of influence where European citizens enjoyed extraterritorial privileges.

Today the West is once again intruding on the sovereignty of failed states around the world. The only difference is that this time around, the great powers abjure any desire to annex new territory and act primarily for what are billed as humanitarian motives—not national security reasons as traditionally understood.

DOG FIGHTS

Such interventions offend the sensibilities of those who argue, as former Secretary of State James Baker did about Yugoslavia, that "we don't have a dog in that fight." The realists want U.S. forces to keep their powder dry until North Korea invades the South, Saddam makes another lunge for Kuwait, or China goes for Taiwan. Ignore two-alarm fires, the realists advise, and await the five-alarm blaze that may (or may not) come.

This cautious attitude, shared by many at the Pentagon, flies in the face of recent history. Democracy, capitalism, and freedom have spread across North America, Europe, and Latin America, and to many parts of Asia—everywhere except Africa. At the same time, notes Shawcross, many parts of the world are being ravaged "by tribalism and by warlordism." As another book title has it, it is *Jihad vs. McWorld.* The United States obviously has a stake in promoting the latter and preventing the spread of the former. The nineteenth-century free trade system was protected and expanded by Britain's Royal Navy; today's must be safeguarded by the U.S. Navy (along with the Air Force, Marine Corps, and Army). This requires taking steps, such as stamping out the slave

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trade or curtailing ethnic cleansing, that are hard to justify on a narrow calculus of self-interest. But idealism—whether embodied in religion or a secular doctrine of "human rights"—is a real force in human affairs, and one that policymakers cannot ignore in the CNN age.

Nor is idealism solely a force on the American left. Ronald Reagan used American ideals as a powerful weapon to help bring down the Soviet empire. Even George Bush, the arch-realist, felt compelled to undertake "humanitarian" interventions in Somalia and northern Iraq. Bill Clinton expanded this trend, and it is unlikely to change any time soon, no matter who wins the Oval Office this year. Like Britain in the nineteenth century, the United States today has power to spare. So when the public demands action and when the cost of acting is relatively low, it is hard for any president to resist the pressure.

Of course, no nation, no matter how rich, can afford to wage war without end. Wherever possible, the United States should encourage its allies to act without American involvement, as the Australians did in East Timor. And sometimes, as in Rwanda—a place far removed from American interests—the United States may have to make the heartbreaking choice to stay out (or at least to not send ground troops). But when genocide occurs in a region vital to American interests, such as Europe, it is hard to see how Washington can remain aloof.

When the United States does act, of course, it must get it right. Shawcross is correct to criticize the fickle public that demands action but soon loses interest. The two U.S. interventions of the 1990s that failed most spectacularly—Somalia and Haiti—fell into this trap. U.S. troops left both countries too quickly, and both places immediately reverted to a Hobbesian state. Both interventions occurred under the U.N. banner, but Shawcross is right to lay the blame for their failure at the feet of the American leaders who retained control of U.S. combat forces.

Interventions such as these that address symptoms (famine or repression, for example) instead of their causes (such as bad government) are doomed to disappoint. This is a lesson the Clinton administration learned belatedly in Kosovo and Bosnia, and perhaps even in Iraq.

What Shawcross—and his views are reflective of a certain internationalist mindset—fails to fully grasp is how useless, and sometimes counterproductive, U.N. involvement has been. NATO won a victory in Kosovo but then unwisely turned over management of the province to the world body. The U.N. viceroy there, Bernard Kouchner, now faces an impossible task, having to coordinate myriad agencies while carrying out a contradictory mandate: to run Kosovo but to do nothing to prevent its eventual return to Serbian rule. As a result, his administration is in a shambles and reconstruction lags behind schedule. Although it may sometimes make sense to seek the U.N.'s imprimatur for a mission, the organization should not be given operational control. Effective empires require strong proconsuls, not bureaucrats—Kitcheners, not Kouchners.

Perhaps because he fails to grasp the problem, Shawcross doesn't explore alternatives to the United Nations. But others do. David Rieff has forthrightly and courageously argued for the United States and its allies to undertake "liberal imperialism,"

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while William Kristol and Robert Kagan have called for the United States to assume a "benevolent global hegemony"—which will necessarily involve fighting some small wars in places like Kosovo.

Contrary to received wisdom, this would not be a new role for the United States. Washington has been involved in other countries' internal affairs since at least 1805, when, during the Tripolitan War, the United States tried to topple the pasha of Tripoli and replace him with his pro-American brother. Between 1800 and 1934, U.S. marines landed abroad 180 times. In the nineteenth century, they tended to stay for only a few days. Yet they helped open up the world to Western trade and influence, their most spectacular successes being Commodore Perry's mission to Japan and the defeat of the Barbary pirates. After 1898, U.S. involvements lasted longer: American forces remained behind to run such countries as the Philippines, Haiti, and Cuba. U.S. rule was not democratic, but it gave those countries the most honest and efficient governments they have ever enjoyed.

There are significant obstacles, to be sure, in the path of reviving "liberal imperialism" today. But based on the record, I—unlike Shawcross—have more confidence in U.S. than in U.N. power.

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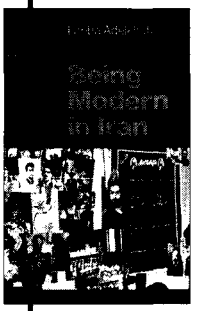

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Sized Up

LAWRENCE KORB

When he was running the Pentagon, James Schlesinger was fond of responding to his critics by saying that everyone is entitled to his or her own opinions but not to his or her own facts. Unfortunately, Condoleezza Rice ("Promoting the National Interest," January/February 2000) and Robert B. Zoellick ("A Republican Foreign Policy") ignore Schlesinger's dictum when describing the Clinton administration's impact on military spending and the state of U.S. armed forces.

According to Rice, the Bush administration "was able to reduce defense spending somewhat at the end of the Cold War," but the Clinton administration "witlessly accelerated and deepened these cuts." Actually, in the Bush administration's four years, defense spending fell by 18 percent—more than 4 percent each year. In the Clinton administration's seven years, defense spending has fallen by slightly less than 10 percent, which is slightly more than 1 percent each year. Moreover, Rice conveniently ignores the six-year plan Bush presented to Congress in January 1993, which projected a continuing decline in defense spending through 1999. Clinton's actual defense budgets were $2 billion more than the final Bush defense plan for 1994–99, as Daniel Gouré and Jeffrey Ranney explain in their new book, *Averting the Defense Train Wreck in the New Millennium.*

Rice then details the "devastating results" of Clinton's large cuts on the U.S. military. According to her, readiness has declined, training has suffered, pay has slipped 15 percent below civilian equivalents, the services are forced to cannibalize existing equipment, and the military has much difficulty recruiting and retaining people. Leaving aside whether these (at best, misleading) statements are true and resulted from Clinton's reductions, these conditions are not related to the amount of money spent on defense. The nonpay portion of the operations and maintenance account in the defense budget, which funds training, readiness, and maintenance, is 13 percent higher now than when Bush left office. Moreover, if the spending on operations and maintenance is calculated on a per capita basis, it is nearly 40 percent higher today than in 1993.

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Rice also accuses the Clinton administration of cutting defense spending to its lowest point as a percentage of GDP since Pearl Harbor. Using shares of GDP as a measure of military capability is both meaningless and misleading. If Clinton had not presided over such an extraordinary period of economic growth, his current defense budget might account for four, instead of three, percent of GDP. Should he be castigated for helping the economy grow? By Rice's GDP standard, Jimmy Carter was better for defense than George Bush.

Most troubling is Rice's suggestion that the U.S. armed forces in 2000 resemble what they were in 1940. But 60 years ago, our military ranked 16th in the world (between Portugal and Romania), was one-tenth the size of Germany's military, and had only 1.6 percent of the world's military personnel. The best way to measure the adequacy of defense spending is to compare it with that of other nations. During the Clinton administration, the U.S. share of worldwide military spending has increased. America now outspends all of its adversaries or potential adversaries combined. Together with its allies, it accounts for nearly 80 percent of the world's military expenditures.

Zoellick is also off base in his critique of the Clinton administration. He writes that it has cut the military by around 40 percent. But it was the Bush administration that reduced the active forces by 444,000, or 21 percent, in four years, unlike Clinton, who cut it only 16 percent over seven years.

Reading Rice's and Zoellick's critiques of Clinton's defense budget reminds one of the early days of the Reagan administration, when several of the president's lieutenants complained about the 1970s as the "decade of neglect of defense spending." They should be reminded that in the first seven years of that decade, the Republicans were in charge and that during President Carter's tenure, defense spending actually increased.

Unfortunately, Rice's and Zoellick's "facts" found their way into presidential candidate George W. Bush's September 1999 speech on defense policy. If the governor becomes the chief executive, one hopes he will discover that the defense funding gap during the 2000 election is like the missile gap during the 1960 election. He should also read George Wilson's new book, which cites former Air Force Chief of Staff Ron Fogelman and former Army Deputy Chief of Staff Jay Gardner as stating that an annual defense budget of $250 billion, plus inflation, should be plenty for the armed services in the post–Cold War period if spent properly. (The budget is now $280 billion.) Finally, Bush should remember that during the Cold War, not a single Republican president, except Ronald Reagan, allowed defense spending to increase.

LAWRENCE KORB *is Director of Studies at the Council on Foreign Relations and was Assistant Secretary of Defense during the Reagan administration.*

Rice Replies

Lawrence Korb's protest of my facts reminds me of a dictum as well: If you find yourself with a mess on your hands, blame your predecessor. That is the essence of his defense of the Clinton administration.

Yes, defense spending declined during the Bush years in accordance with major reductions in American military personnel

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at the end of the Cold War. During such a big demobilization, 18 percent was not outrageous. It has been forgotten that the Democratic Congress thought the cuts not deep enough. The first Clinton budget was, by the way, nine percent below the Bush projections. What has happened since then? The cannibalization of equipment, pay scales inadequate to retain personnel, substandard housing, strained training budgets, and low morale are not imaginary. Read the congressional testimony of the Joint Chiefs of Staff and the administration's testimony last year. Did the military's troubles occur overnight?

Indeed, the most irrelevant "fact" presented by Korb is the comparison of Bush's long-term projections with Clinton's actual budgets. Would Bush have increased the operations tempo of the military to the degree Clinton has? Would Bush then have carried through with projected cuts in defense spending and allowed the armed forces to reach the state they are now in? I rather doubt it.

But this is a moot point. Long-term projections are just that: projections. The defense budget is put together annually. George Bush has not been the commander-in-chief for seven years. So there are only two possible conclusions. Either Clinton's defense budgets have been inadequate or the Pentagon during his administration has been incompetent in managing resources. Both are probably true. If the Pentagon has not divided money properly, where has the secretary of defense been? In case Korb does not remember, the management of the Pentagon is also the administration's responsibility.

As to the low percentage of GDP spent on defense, this is simply a measure of the nation's priorities. It is not meant to be more. But Korb's analysis begs the question, Why in such good times was the military permitted to fall into this state?

Korb is also selective in the data he chooses. Operations and maintenance accounts are indeed nearly 13 percent higher now than in Bush's administration. Why? Largely because they have been funding the multiplying missions—from Haiti to Bosnia to Kosovo—this administration has assigned its military. These operations have been at the expense of procurement and research and development (R&D). Democratic members of the Senate Armed Services Committee recently sent a letter to the administration complaining about the lack of investment in defense R&D, which has stayed flat for several years. The operations and maintenance number exposes the shortsighted strategy that the administration's own undersecretary has called a "death spiral"—robbing the future to pay for the present.

The Clinton administration has had seven years to build a military more robust and better suited to face post–Cold War challenges. It inherited a strong hand—a military that won the Gulf War. Now, under congressional and electoral pressures, the president is sprinting to undo the damage he has inflicted on the armed forces. A two-term administration is responsible for what has happened on its watch. That is a fact no analysis can erase.

CONDOLEEZZA RICE *is Senior Fellow at the Hoover Institution and Professor of Political Science at Stanford University. She is also foreign policy adviser to Republican presidential candidate George W. Bush.*

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Zoellick Replies

Why defenders of the Clinton administration, after its more than seven years in office, still try to blame the administration's problems on a predecessor continues to baffle me. As Lawrence Korb writes, President Bush did indeed reduce the size of America's military after the Cold War ended. The question that Korb sidesteps is why President Clinton and Vice President Gore would continue the cuts, year after year, in the face of numerous military problems: a hectic tempo of operations around the world, shortfalls in maintenance, the slippage in readiness, declines in relative pay, gaps in recruitment, housing problems, troubles in retention, increased threats from states with missiles, and the failure to procure new equipment to replace the depreciating investments made 20 years ago.

Korb's devotion to facts also wanes when he selectively cites other works on the subject. If he respects the authority of Jim Schlesinger or Dan Gouré, he might have pointed out that Gouré's new book, with a supportive forward by Schlesinger, documents that the Clinton administration's defense budget is nearly $100 billion short each year in funding its own force plan for the next five years. This mismatch underscores my larger policy points. The administration's foreign and defense policies have been greatly weakened by its failure to match means and ends, connect strategies with operations, and back up rhetoric with actions. Korb's comments reveal that he, like Clinton, is strategically challenged. Whereas Korb maintains that the test of U.S. defense spending should be a comparison with the expenditures of other nations, a strategist would compare resources to U.S. objectives.

Unfortunately, Korb's accounting also misses the key point that leading Republican presidential candidates are making about defense policy. The strategic challenge is how the country's money should be spent transforming the military to meet new threats and to take advantage of America's existing strengths—especially its educated people and technology. Presidential leadership is needed to press the U.S. military to maintain its superiority under new circumstances. The Clinton administration's uncomfortable relationship with the military and its failure to understand these challenges has led it to abdicate its responsibility for designing the American military of the future.

ROBERT B. ZOELLICK *served as Undersecretary of State, White House Deputy Chief of Staff, and Counselor to the Secretary of the Treasury during the Reagan and Bush administrations.*

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Recent Books on International Relations

The United States

PHILIP ZELIKOW

Report to JFK: The Skybolt Crisis in Perspective. BY RICHARD E. NEUSTADT. Ithaca: Cornell University Press, 1999, 177 pp. $25.00.

In 1962, the United States and Britain unexpectedly clashed over the cancellation of an American missile program, Skybolt. Puzzled about how such close allies could fall so afoul of each other, President Kennedy asked a professor he admired, Neustadt, to study the matter—opening doors and files to him in Washington and even helping him in London. After reading Neustadt's vivid report in November 1963, Kennedy gave it to his wife, remarking, "If you want to know what my life is like, read this." Then they left for Dallas, and Neustadt's report was locked away for 30 years. Now declassified, it offers a marvelous introduction to the personalities and the arcane issues involved, supplemented by Neustadt's new research in the now-opened British archives. His report is both a microstudy of the details that animate real issues in government and a masterpiece of writing. It looks deeply not only into international policymaking but into the heart of relations among allies. It also offers a very timely lesson: the United States ought to favor its friends with the kind of attention it usually accords only to its enemies.

An Elusive Consensus: Nuclear Weapons and American Security After the Cold War. BY JANNE E. NOLAN. Washington: Brookings Institution Press, 1999, 139 pp. $36.95 (paper, $14.95).

Nolan still cares about America's nuclear stockpile. Her story starts with dramatic changes in the U.S. arsenal, both negotiated and unilateral, accomplished by the Bush administration. Yet that much-reduced arsenal was still in Cold War readiness for a prompt launch against thousands of Russian targets. Clinton then appointed some of the arsenal's most knowledgeable critics to lead the Defense Department in 1993. As Clinton's second term ends, Nolan concludes that his nuclear policy has been "unfortunately a story of missed opportunities." The president's role in directing nuclear policies has been "negligible," in sharp contrast with Bush's record. In a dry and understated style, Nolan shows how the policy review was smothered and illuminates the debates about the uses of nuclear weapons against "rogue" states. She attends to the arguments on both sides and presents them fairly—something unusual for this field. In the

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end, the top Pentagon brass (principally William Perry and John Deutch), like their president, simply had bigger fish to fry. Nolan finds this unfortunate, and her book reminds readers how many troubling issues remain as America tries to devise a truly post–Cold War nuclear posture.

A Republic, Not an Empire. BY PATRICK J. BUCHANAN. Washington: Regnery, 1999, 437 pp. $29.95.

Buchanan's book attracted national criticism for arguing that Britain and the United States should have stayed out of World War II—a case with a small following in Britain but virtually none in America. But this argument would not have seemed that controversial to many articulate Irish Catholics in 1940, the era of Buchanan's father and teachers, when the dominant sentiments of Irish Americans were anti-British, anticommunist, and relatively unsympathetic to China. Couched in terms of realpolitik, Buchanan's argument ultimately turns on unexamined "what-ifs" about hypothetical German-Soviet wars (which in fact could have turned out very badly for the United States). Nor does Buchanan really address Franklin Roosevelt's basic point that America could not flourish as a "lone island in a world dominated by force." But the book as a whole is much more. Buchanan rehabilitates older critiques of American foreign policy commitments made throughout U.S. history, gripped by his ancestors' fears of robust internationalism abroad creating a "garrison state" at home. In this sense, the book is a remarkable, well-restored museum of old ideas—less libertarian or conservative than nostalgic for a past that never was.

Day of Deceit: The Truth About F.D.R. and Pearl Harbor. BY ROBERT B. STINNETT. New York: Free Press, 1999, 380 pp. $26.00.

Stinnett revives another old argument: that Roosevelt knew about the Japanese attack on Pearl Harbor and let it happen. (Even Buchanan did not stoop to this old saw.) A persistent digger, Stinnett has uncovered some nuggets of new evidence, but his most sensational items are premised on the false belief that American intelligence had broken the Japanese naval code before the attack. In fact, it was not decrypted until after Pearl Harbor. Aside from questioning the competence and honesty of two officers in U.S. naval intelligence (in a case concerning the Japanese fleet's radio silence and U.S. radio direction-finding), the book offers little new. Stinnett never fashions his nuggets of research into a coherent argument, much less a convincing portrait. It is odd that an otherwise respectable publisher did not insist on such coherence before peddling this book with its sensational press release. If Roosevelt was indeed maneuvering to have a war forced on the United States, his maneuvers were aimed at Germany rather than Japan, which he and Churchill simply hoped to deter. Pearl Harbor demonstrated their misjudgments, not their shrewdness.

Misreading the Public: The Myth of a New Isolationism. BY STEVEN KULL AND I. M. DESTLER. Washington: Brookings Institution Press, 1999, 230 pp. $44.95 (paper, $18.95).

This book shows why Buchanan's worldview is such an anachronism. No more than ten percent of Americans really want their country to turn away from the world

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and its global institutions. In fact, public opinion is much more open to international engagement than most of America's current leaders realize. Support for internationalism actually seems to have gone up since the Cold War ended, perhaps because of a vague but strong sense of growing global interdependence. Kull and Destler show that even members of Congress (those supposedly sensitive weathervanes) are quite mistaken about public opinion on these issues, often misled by their constituent mail. In their most beguiling chapter, the authors cleverly devise a way to let citizens allocate money according to their own vision of the federal budget. In their sample, average citizens tend to increase domestic spending, double spending on the State Department, triple spending on the United Nations, and pay for it all by cutting defense by 40 percent.

Counting the Public In: Presidents, Public Opinion, and Foreign Policy. BY DOUGLAS C. FOYLE. New York: Columbia University Press, 1999, 379 pp. $49.50 (paper, $20.50).

Foyle tackles the same subject as Kull and Destler but from the side of the policymakers. Two questions underpin his analysis: Do presidents think public opinion should guide foreign policy? Or do they at least work concern over public opinion into implementing their policies? Some presidents—the author calls them "guardians"—simply marched to their own drummer. For Foyle, this means Reagan, Truman (doubtful), and even Johnson (who should not be in this category at all). At the other extreme are obedient "delegates," namely Clinton. And in the middle is the "executor" model—a president who believes public opinion is important in choosing a policy but not in fashioning its implementation. Carter alone falls in this curious category. The rest are "pragmatists"; Eisenhower's pragmatism is especially stressed in Foyle's case studies. Such labels seem artificial, like singling out the colors of a rainbow. But there is a spectrum of beliefs about the public role in policymaking, and Foyle helpfully draws attention to it.

Political and Legal

G. JOHN IKENBERRY

Mixed Messages: American Politics and International Organization, 1919–1999. BY EDWARD C. LUCK. Washington: Brookings Institution Press, 1999, 382 pp. $49.95 (paper, $19.95).

A vivid and insightful account of America's century-old ambivalence toward multilateral institutions. The United States is indeed a puzzle: no country has so consistently championed international organizations while resisting their obligations. Luck argues that this deeply rooted contradiction shapes many policy dilemmas: American exceptionalism breeds both idealism and cynicism about global institutions; American liberalism propels officials to seek a rule-based international order while resisting infringements on national sovereignty; and multilateral institutions both amplify and legitimate American power while curbing its autonomy. The irony, Luck notes, is that public support for the United Nations is quite strong—but the language and values of American politics make supporters of global institutions vulnerable to attack. The book

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cuts away at the overblown rhetoric of proponents and critics alike, placing current struggles in historical perspective by incorporating the past debates over the League of Nations and the United Nations. True, the dilemmas that plague America's world role will not go away. But if Luck is right, pragmatic compromises can be fashioned to command steady public support.

Reflections on a Ravaged Century. BY ROBERT CONQUEST. New York: W. W. Norton, 1999, 336 pp. $26.95.

A veteran historian looks back on the great ideological battles of the twentieth century. His familiar but engrossing thesis argues that both communism and fascism stemmed from the dangerous spread of "rogue ideologies" that harnessed military power and totalitarianism for the advancement of utopian ideas. Chapters on Nazism and Soviet communism explore how ideology's romantic appeal in Russia and Germany after World War I extinguished independent political thought and empowered the state. In Conquest's view, Western societies responded weakly to this challenge because intellectuals succumbed to its grand visions and politicians misjudged its potency. Conquest then tries to go further and apply these lessons to the present. He warns that dangers still lurk, even though we may live in a less ideological era. But he does not discuss how ideology applies to other major social forces, such as capitalism and nationalism, and leaves it unclear to the reader how to assess its danger. Nor does he explain how his final warning—that the idea of "Europe" will threaten democratic rule and divide the West—relates to the ideological battles of the past.

A Century's Journey: How the Great Powers Shape the World. EDITED BY ROBERT A. PASTOR. New York: Basic Books, 1999, 415 pp. $32.50.

The same great powers that ruled world politics 100 years ago still dominate today. As this superb book argues, however, all have undergone a fundamental transformation. The old goals of territorial conquest and spheres of influence have given way to the pursuit of global markets and economic advancement. A distinguished group of scholars traces these changing goals and strategies of the major states—France, Germany, Britain, the United States, Japan, and China—to yield a bounty of insights. Two themes stand out: Japan's and Europe's grudging accommodation of the preeminence of the Cold War superpowers (and later of America alone), and the ongoing search for a benign international order that allows major powers to pursue their domestic agendas. For Germany and Japan, it is a story of turning postwar necessity into virtue. Pastor concludes that this journey has finally led to a new "Liberal Epoch"—an open system organized around pluralist democracy, markets, and transnational groups. But he does not make it clear whether this new era is built around truly transformed great powers or the long shadow cast by American unipolarity. Nonetheless, the book is an important contribution to this ongoing debate.

Aiding Democracy Abroad: The Learning Curve. BY THOMAS CAROTHERS. Washington: Carnegie Endowment for International Peace, 1999, 412 pp. $39.95 (paper, $19.95).

The best book yet on American democracy assistance. In recent years, the promotion of democracy has become a major U.S.

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foreign-policy goal, spawning thousands of aid projects in countries seeking to strengthen nascent democratic institutions. But soaring goals and ambitious programs have often outpaced sober assessments. Carothers tries to build an analytic framework for understanding this new field and addressing whether these programs actually work. The result is a model of policy analysis that cuts through the rhetorical excesses of both democracy promoters and skeptics. Richly empirical, the book is organized around democracy programs in four countries—Guatemala, Nepal, Zambia, and Romania—and untangles the various types of aid initiatives. Carothers argues that democracy assistance can contribute at the margins to democracy building but warns that projects should be targeted and expectations kept modest. Above all, democracy promoters must develop a more sophisticated understanding of where particular countries are in their development so they can find opportunities for effective change. But Carothers also admits that these programs' ultimate impact may be primarily indirect by fostering the necessary skills of local democracy builders.

Community Under Anarchy: Transnational Identity and the Evolution of Cooperation. BY BRUCE CRONIN. New York: Columbia University Press, 1999, 270 pp. $49.50 (paper, $18.50).

This book joins the growing literature on identity and political community in international relations. Traditional explanations for the security relations between states focus on anarchy, power, and self-interest. In contrast, Cronin argues that elites can build security relations around "transnational communities" based on common identity and social cohesion; in turn, the type of community-based security arrangements created depends on the character and intensity of emerging political bonds. For example, the nineteenth-century Concert of Europe was built on mutual recognition and a shared view of the common good. Other security arrangements—ranging from the Arab League and the British Commonwealth to NATO—are organized around different combinations of shared ideologies, regime type, and regions. The book makes a strong case that durable cooperative security depends on political ties and common affinities between sovereign states—an insight, for example, that the security debate in East Asia might consider. But it is less clear from Cronin's telling how these transnational communities emerge and how long they last in the face of crisis.

Legal Rules and International Society. BY ANTHONY CLARK AREND. New York: Oxford University Press, 1999, 192 pp. $35.00 (paper, $17.95).

Over the last century, scholars of international relations and international law gradually parted company. This book argues that this mutual neglect is no longer tenable in a world where law and politics increasingly converge. For Arend, legal rules do in fact matter in world politics—even if they are not established or enforced in the same way as domestic law. International legal norms are important because states consent to and respect legal rules. For its part, Arend argues, international law is rooted in politics; legal scholars who forget this basic insight risk becoming irrelevant in the global arena. Not surprisingly, the author looks to the European Union to show how law transformed

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relations between states as the legal character of European institutions underpinned political integration. Arend sees fundamental change under way, leading to a "neomedieval" system of multiple and overlapping legal authorities in which individuals simultaneously owe loyalties to ethnic communities, regional organizations, and transnational groups. But his speculations about the future are a bit murky.

Unipolar Politics: Realism and State Strategies After the Cold War. EDITED BY ETHAN B. KAPSTEIN AND MICHAEL MASTANDUNO. New York: Columbia University Press, 1999, 350 pp. $47.50 (paper, $18.50).

A welcome effort to assess the implications of unipolarity in a collection of eclectic and thoughtful articles on realism. Several essays offer important amendments to the realist canon. Michael Mastanduno writes that other states will not automatically balance against a preponderant America; instead, such balancing will depend on America's behavior, not just its power, making diplomacy critical in managing unipolarity. Randall Schweller explores the role that status competition will play in triggering rivalry, while Jonathan Kirshner examines the geopolitical consequences of increasing economic competition. Other essays rebut the notion that unipolarity best explains current international stability. Daniel Deudney and G. John Ikenberry contend that economic openness, constraining international institutions, and the semisovereign status of major powers like Germany and Japan are in fact the key sources of long-term stability. And Alistair Johnson questions traditional conceptions of power-balancing by introducing the notion of "identity realism," arguing that China's behavior is best explained by elite efforts to strengthen the state and rally popular loyalty, not to balance against the United States. In sum, essential reading for those seeking to understand the current strategic landscape and its future.

CHARLES A. KUPCHAN

Economic, Social, and Environmental

RICHARD N. COOPER

Hydropolitics in the Third World: Conflict and Cooperation in International River Basins. BY ARUN P. ELHANCE. Washington: United States Institute of Peace Press, 1999, 309 pp. $37.50 (paper, $19.95).

Why Governments Waste Natural Resources: Policy Failures in Developing Countries. BY WILLIAM ASCHER. Baltimore: Johns Hopkins University Press, 1999, 333 pp. $59.00 (paper, $17.95).

In coming decades, fresh water is likely to become the scarcest resource in several parts of the world. From different perspectives, these two books examine resource management in developing countries. Elhance looks at six politically important river basins—Paraná, Nile, Jordan, Euphrates, Ganges, and Mekong—all of which require international cooperation to exploit fully their benefits for irrigation, flood control, navigation, and electric power. He also examines the political and technical obstacles to cooperation among the great-river nations, offering hopeful judgments about the possibility

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for joint action in the future. But the book could have benefited from some discussion of rivers where effective international cooperation has been achieved, such as the Rhine, Danube, and St. Lawrence.

Ascher asks a different question: Why have developing countries so often badly managed natural resources? He draws on numerous case studies, including not only water management (Mexico) but also oil (five countries), copper (Chile and India), and forests and timber (seven countries). Although Asher acknowledges that ignorance about resource management has played some role, he argues persuasively that policymakers too often have sought objectives that they knew their finance ministries, their publics, and even the international community would oppose if pursued directly through the national budget. Thus governments often wasted resources deliberately to divert resource rents to other purposes, such as aircraft production in Indonesia, usually through related public companies. Ascher concludes that if such countries want to improve resource management, they must confront directly these other objectives by either subordinating them to efficient resource management or achieving them in some other way.

The House of Rothschild: The World's Banker, 1849–1999. BY NIALL FERGUSON. New York: Viking, 1999, 658 pp. $34.95.

Ferguson's second volume on the Rothschilds, the premier international bankers of the nineteenth century, is an ambitious, detailed, and well-written history of the key members of a remarkable family. It is also an account of a great transnational business partnership—preserved over five generations through family loyalty, written agreements, and intrafamily marriage—that spanned the political and economic fortunes of western Europe from 1848 to World War I. Benefiting from Ferguson's unprecedented access to family archives, the book relates how Rothschild success resulted from a unique combination of close political ties, dispersion of risk across countries, and extensive and rapid communication among London, Paris, Frankfurt, and Vienna. In the nineteenth century, the Rothschilds dealt mainly in government bonds, although they later also moved into railway bonds. They also financed some wars, as frequently charged. But Ferguson shows that they worked assiduously, and sometimes successfully, for peace and actively fought antisemitism. Steadily accumulating capital until the early twentieth century, the family saw its fortunes decline substantially thereafter. The author attributes this fall to the loss of interest in managing the business among the later, better-educated generations, the rise of joint-stock banking institutions, and the strategic failure to establish a strong base in New York. To his credit, Ferguson takes a lively interest (as do his subjects) in the influence of political events on financial markets. The result is a neat and informative blend of politics, personalities, and market developments.

Tiger by the Tail: China and the World Trade Organization. BY MARK A. GROOMBRIDGE AND CLAUDE E. BARFIELD. Washington: AEI Press, 1999, 110 pp. $29.95 (paper, $14.95).

This short book was published after the United States rejected Chinese offers on market access and accession to the World Trade Organization in April 1999 but before the successful conclusion of those

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negotiations in the following November. Although inevitably a bit dated, the book provides valuable background and lucid analysis of the issues surrounding China's WTO entry. Groombridge and Barfield argue that China remains selectively statist in its approach to industrial structure despite its long march toward a market economy. It still lacks a solid legal basis for settling commercial disputes and limiting continuing intervention by officials in commercial deals. Hence, the authors view China's accession to the WTO as desirable because it creates an ambitious agenda for further institutional reform—especially administrative transparency—even though it opens up a rich field for subsequent disputes with its trading partners.

A Prism on Globalization: Corporate Responses to the Dollar. BY SUBRAMANIAN RANGAN AND ROBERT Z. LAWRENCE. Washington: Brookings Institution Press, 1999, 198 pp. $36.95 (paper, $14.95).

A specialized study of the trading behavior of multinational American companies during the 1980s and early 1990s, when the dollar-exchange rate moved dramatically up and down. The economic behavior of such firms carries great importance for international trade—sales between multinational firms account for more than one-third of U.S. exports and an even higher share of imports. But flexible exchange rates create challenges for firms whose multinational customers want a degree of price stability—each in their own currency. In their study, Rangan and Lawrence find that U.S. firms did attempt to maintain price stability in local markets, as did foreign firms in the American market. That sometimes led to the charge of dumping, when businesses faced with a currency depreciation sold their exports abroad at prices lower than those in their home market. They also switched their trade patterns to respond to movements in exchange rates faster than firms dealing with foreign companies, but not as fast as journalistic claims about "globalization" would imply. The authors conclude that international borders continue to pose informational and psychological barriers to trade—even when formal trade restrictions are low.

The Long Boom: A Vision for the Coming Age of Prosperity. BY PETER SCHWARTZ, PETER LEYDEN, AND JOEL HYATT. Cambridge: Perseus Books, 1999, 336 pp. $28.00.

A book for anyone seeking an uplifting view of the future. The authors argue that the world is halfway through a "long boom" of 40 years that started in 1980. The second half could be more vigorous than the first, achieving robust global growth rates ranging from a plausible four to an imaginative six percent a year. Billed not as a prediction but as a desirable vision, the book identifies the technological and economic possibilities and warns of the political obstacles that need to be overcome. It argues that innovation is proceeding apace, especially in computation, communication, biotechnology, and even nanotechnology—controlled processes taking place at the atomic level. Meanwhile, the mobilization of technology, particularly fuel cells, can avoid the environmental costs of more rapid growth. In turn, economic growth can lift millions into an emerging international middle class, creating a

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new global identity that coexists comfortably with traditional cultures. Writing from the perspective of historians in 2050, the authors project a big picture stripped of the momentary tribulations that dominate daily life and preoccupy contemporary writers.

The Social Market Economy and Monetary Stability. BY HANS TIETMEYER. Washington: Brookings Institution Press, 1999, 290 pp. $26.95.

Throughout most of the 1990s, Hans Tietmeyer personified monetary rectitude in Germany, indeed in all of Europe. As chair of the independent German central bank, he was the principal spokesperson for stability-oriented monetary policy and often criticized governments, including his own, if they strayed from macroeconomic stability. He retired in 1999 after the successful launch of Europe's new single currency, the euro. In this volume of collected essays, he discusses his basic views on the social market economy, economic policy, the importance of monetary stability, and the necessity of international monetary cooperation. Tietmeyer comes across not as a monetary dogmatist but as a highly sophisticated and thoughtful commentator on postwar Europe and its role in an increasingly interdependent world. He strongly advocates a social-market economy derived from the European liberalism of Adam Smith and John Stuart Mill. In his terms, "social" means individual freedom and individual responsibility—a reaction against European authoritarianism this century—not an endorsement of the welfare state. In sum, a valuable compilation of the thoughts of an important public servant.

Military, Scientific, and Technological

ELIOT A. COHEN

Germany and the Second World War: The Attack on the Soviet Union, Vol. IV. BY HORST BOOG, JÜRGEN FÖRSTER, JOACHIM HOFFMANN, ERNST KLINK, ROLF-DIETER MÜLLER, AND GERD R. UEBERSCHÄR. New York: Oxford University Press, 1999, 1,364 pp. $225.00.

Words like "definitive" or "monumental" often trip too lightly off the reviewer's tongue, but this study truly merits those accolades. Produced by the meticulous scholars of Germany's Research Institute for Military History, this is arguably the most interesting and controversial of the series, which will stretch to ten volumes when completed. The chapters by Jürgen Förster, and in particular his essay "Operation Barbarossa as a War of Conquest and Annihilation," document the ways in which the German army was not the ideologically neutral instrument of an evil regime (as traditionally claimed) but a willing accomplice. This volume also offers penetrating essays on strategic planning, coalition politics, and economic mobilization. An altogether extraordinary work, conducted in the best traditions of German historical analysis, and a tremendous credit to a Germany that is willing to consider its past unflinchingly.

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The Armed Forces of China. BY YOU JI. London: I. B. Tauris, 1999, 288 pp. $65.00 (paper, $19.95).

China's Strategic Modernization: Implications for the United States. BY MARK A. STOKES. Carlisle Barracks: U.S. Army Strategic Studies Institute, 1999, 233 pp. Free of charge.

Two first-rate studies on the contemporary Chinese military. The first volume belongs to an excellent series, *The Armed Forces of Asia,* edited by Professor Desmond Ball of Australian National University and Air Marshal Ray Funnell, formerly of the Australian Department of Defense. Much more than a descriptive catalogue of the order of battle, the book argues that the People's Liberation Army has "embraced the revolution in military affairs." The author's picture is a troubling one, describing a Chinese military committed to developing a high-tech force capable of projecting power beyond its shores and achieving increasingly ambitious objectives. He concludes that the Chinese military, like China itself, lies at a crossroads, ready either for integration in the international system or for a challenge. Not an alarmist work, to be sure, but a far more ominous—and convincing—treatment than much other writing on this subject.

China's Strategic Modernization also presents a troubling picture. Written by a former assistant U.S. air attaché in Beijing, the book is unusual in its depth and judgments. Whereas most assessments of the People's Liberation Army—including those by American military analysts—tend to dismiss its capabilities, Stokes does not. Focusing primarily on the Chinese military-industrial complex and its investments in missiles, information warfare, and precision weapons, he begins with the sound premise that China need not match the United States to achieve its political objectives. China's immediate aims—dominating Taiwan and deterring the United States from intervening to protect the island—are more modest military objectives that lie well within China's grasp. Sober, detailed, and well-reasoned, this study should interest both specialists and general students of contemporary strategic issues.

The Sword and the Shield: The Mitrokhin Archive and the Secret History of the KGB. BY CHRISTOPHER M. ANDREW AND VASILI MITROKHIN. New York: Basic Books, 1999, 720 pp. $32.50.

Intelligence historian Andrew previously wrote on the KGB with a prominent defector, Oleg Gordievsky. This time, his coauthor was the KGB's archivist from the early 1970s through the mid-1980s. A secret dissident, Mitrokhin took notes on the files that passed through his hands, and escaped to the West in the early 1990s with cartons of material that formed the basis of this book. The result of their collaboration is a dense but extraordinary work. The authors are coy about naming some Soviet spies in the West; others found themselves compromised by Mitrokhin some years ago. There are no huge surprises here; that the KGB plotted to sabotage Western power networks, routinely conducted assassinations through the early 1960s, and maniacally persecuted religious groups should not shock readers. But the weight of detail and the solid retelling of well-known stories, such as Soviet recruitment of British spies in the 1930s, make for a fascinating read. Among the more interesting conclusions is that much of the invaluable information dug up

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by Soviet spies never made it through the filters of paranoia, ideology, and sycophancy created by the Soviet leadership.

Red Atom: Russia's Nuclear Power Program From Stalin to Today. BY PAUL R. JOSEPHSON. New York: W. H. Freeman, 1999, 368 pp. $26.95.

The Soviet Union embraced nuclear power not simply as a source of military strength but as a symbol of scientific and economic prowess. This work traces the development of the nuclear power program that ultimately spawned such spectacular disasters as Chernobyl and appalling problems of nuclear contamination, which are growing worse over time as old reactors are junked and radioactive wastes spew into the sea, air, and land. The high quality of Soviet science was not enough to counteract the slovenliness and even recklessness of the Soviet bureaucracy. One of the author's shrewdest observations is that Soviet "nuclear culture" reflected some of the fundamental characteristics of communism. Unfortunately, the material legacy of that ideology will remain long after its adherents are gone.

War, Peace, and Security World Wide Web Server. BY THE CANADIAN FORCES COLLEGE. http://www.cfcsc.dnd.ca

Researchers using the Internet to study security matters are well-advised to begin not with search engines (which automatically troll the Internet for sites) or all-purpose directories (composed by experts attempting to cover anything of interest to anybody) but specialized sites. This site is one of the best. In addition to material on the Canadian Forces College and the Canadian government that will interest the specialist, this site offers a superb collection of links on eight subjects for the more general audience: armed forces of the world, contemporary conflicts, international organizations, international relations, military art and science, military biographies, military history, and peace and disarmament. Without being excessively fancy, the site makes sound use of graphics and offers some useful quick reference items, including a historical timeline.

History at War. BY NOBLE FRANKLAND. London: Giles de la Mare, 1999, 248 pp. $40.00.

In many countries, World War II elicited masterpieces of scholarship that were accessible to the lay public and shaped by personal wartime experiences; such work was also important in shaping strategic decisions after the war. Harking back to this tradition, this book discusses not the theory of military history but its practice. Together with distinguished diplomatic historian Charles Webster, Frankland wrote the British official history of strategic bombing during World War II before going off to head the Imperial War Museum in London. His latest book is a set of reflections on the writing of official history, its place in political debates, and its preservation and interpretation. Tart but occasionally generous, Frankland's contributions to official history were examples of integrity and courage combined with shrewd judgment and literary skill. The issues covered are alive in any country that wages war: how to ensure that a candid, comprehensive, and open account of military operations reaches the public, and how to create museums that can instruct without preaching.

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Undue Risk: Secret State Experiments on Humans. BY JONATHAN D. MORENO. New York: W. H. Freeman, 1999, 320 pp. $24.95.

The title is somewhat misleading, given that this book deals primarily with the United States, with only passing references to Germany, Iraq, and the Soviet Union. Still, the material is chilling enough, recounting the use of human subjects for ghastly experiments during the Cold War. Even making allowance for the acute sense of threat felt in the 1950s, Moreno makes clear that American civilians and military personnel were sometimes exposed to unacceptable risks in various experiments, including those involving LSD injections and plutonium. The author, a professor of biomedical ethics with government experience, writes well. What he does not do, unfortunately, is look much beyond the United States, where the abuses of the past are unlikely to be repeated. To be sure, other countries have not exposed so much of their history. But when they do, the results will probably be even scarier.

Dangerous Weapons, Desperate States: Russia, Belarus, Kazakstan, and Ukraine. EDITED BY GARY K. BERTSCH AND WILLIAM C. POTTER. New York: Routledge, 1999, 256 pp. $75.00 (paper, $24.99).

Edited works on arms-export controls are usually not compelling reading for anyone other than experts. The result of an international collaborative effort, this work also has some long arid patches, including descriptions of bureaucratic procedures that may operate better in theory than in practice. But one comes away from this work with a renewed sense of just how porous those regulations are. The consequences of the leakage of Soviet military technology—material and know-how for conventional and unconventional weapons alike—are only now being felt. This book acknowledges the truly grim possibilities and informs the reader about the obstacles to effective control over this kind of proliferation. Worse yet, it may be too late to remedy much of the problem.

A Question of Loyalty: Military Manpower Policy in Multiethnic States. BY ALON PELED. Ithaca: Cornell University Press, 1998, 203 pp. $33.50.

A skillfully drawn investigation of three countries—South Africa, Singapore, and Israel—that have attempted to forge different (and often antagonistic) ethnic groups into effective military organizations. The central problem for these states was what the author terms "Trojan horse fears"—namely, concerns that a subordinate ethnic group might use its military expertise and status to turn against a state in which their clan, tribe, or group is disadvantaged. In his view, success arises from austere military professionalism, which proves surprisingly effective in dealing with underlying conflict as long as an army does not have at its core a nation-building mission. This thesis may seem paradoxical, but the evidence adduced is convincing. A neat, crisp study, of interest to scholar and practitioner alike.

Western Europe

STANLEY HOFFMANN

I Will Bear Witness: A Diary of the Nazi Years, Vol. II, 1941–1945. BY VIKTOR KLEMPERER. New York: Random House, 2000, 544 pp. $29.95.

The second volume of Klemperer's diary

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is even more fascinating than the first. This penetrating and terrifying account of the Third Reich illuminates the routinization of evil—including the increasing humiliation and restrictions imposed by the Nazis during the war—from the victim's perspective. But leading a life of "fear and hunger" does not prevent Klemperer from reporting on daily life and reflecting on numerous issues, whether modern Jewish insecurity, the influence of language on national consciousness, or the links between German Romanticism and Nazism. All this was written during mandatory moves and spells of forced labor. The pages covering spring 1945 are particularly vivid. Living in Dresden with his non-Jewish wife, Eva, Klemperer was told in February that he would soon be "arrested" along with the last remaining Jews. In a remarkable twist of fate, the Allied firebombing of Dresden immediately followed. With the city in chaos, he and Eva fled the burning ruins for American-occupied Bavaria. Along the way, he describes a country in collapse and a people torn between support for Hitler and increasing despair and repudiation—but with no sense of responsibility for the regime's horrors. When they finally meet American soldiers in Munich, Klemperer records his ambivalence over the war's destruction: "I rejoice in God's vengeance on the henchmen of the Third Reich … and yet I find it dreadful now to see the victors and avengers racing through the city, which they have so hellishly wrecked." The Klemperers then returned to Dresden, where he finished both his autobiography and a book on Nazi language—the projects, along with the dairy, that gave him the will to live through circumstances that drove many of his friends to suicide. This is a work of inexhaustible value.

The Passing of an Illusion: The Idea of Communism in the Twentieth Century. BY FRANÇOIS FURET. Chicago: University of Chicago Press, 1999, 596 pp. $35.00.

The late Furet devoted his last book to the study of modern communist ideology, especially its "most powerful" passion—hatred of the bourgeoisie. He starts with World War I, describing how this incomprehensible war affected both the Soviet revolution and the fascist one. The former was a triumph of political will over Marxist determinism, whereas the latter was a triumph of violence stemming from the war rather than a reaction against communism itself (as some historians have argued). Case studies of three intellectuals—Pierre Pascal, Boris Souvarine, and Gyorgy Lukacs—are particularly illuminating. So too is Furet's study of the similarities between communism and Nazism and the "godsend" that antifascism proved for Stalin. Constantly interesting, this ambitious work nonetheless suffers from two flaws. First, the political history overshadows the intellectual story that Furet was so well qualified to probe. Second, the book is heavily centered on France. Certainly, France was a major ideological battlefield; the notion of collective ownership had been fiercely debated across the political spectrum since the French Revolution. But Furet pays little attention to other European theaters, the United States, or the Third World. His passion and formidable intelligence do not quite overcome those failings. On this topic, Raymond Aron's *Opium of the Intellectuals* remains peerless.

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Hitler's Pope: The Secret History of Pius XII. BY JOHN CORNWELL. New York: Viking, 1999, 430 pp. $29.95.

A comprehensive brief against the man who dominated Vatican diplomacy long before he was elected pope in March 1939. A veteran envoy to Germany, Eugenio Pacelli helped the Vatican reach the agreement with Berlin in 1933 that helped Hitler destroy the resistance of many German bishops and the Catholic Center Party. Throughout World War II, the Vatican refrained from condemning Nazi persecution of the Jews, even though Pius XII at times tried to help the anti-Nazi underground and supplied the Allies with intelligence. But when the Nazis rounded up the Jews of Rome in 1943, and again when they deported Hungary's Jews in 1944, the Vatican remained silent. Furthermore, Cornwell shows, Pacelli supported authoritarian regimes such as Franco's Spain and believed in a strong link between Jews and Bolshevism. Indeed, his uncompromising hostility to the latter contrasted with his appeasement of Hitler. Cornwell also emphasizes Pius XII's drive for papal supremacy at the expense of fresh thinking. But he is better at describing the secretive and ascetic pope's contradictions than at explaining his silence toward fascism and Nazism. This book provides all the elements to solve the mystery—except the workings of the pontiff's soul.

Contagion and the State in Europe, 1830–1930. BY PETER BALDWIN. New York: Cambridge University Press, 1999, 581 pp. $69.95.

This dazzling book demonstrates how contagious diseases affected politics and public policy in Europe. Baldwin explains how particular nations chose specific preventive courses while emphasizing the multiplicity of factors behind their decisions. He contrasts the preventive strategy of "quarantinist" approaches, which interrupted the circulation of carriers, with "localist" approaches, which tried to remove the environmental causes of disease. Political traditions did not explain much; the proximity of a country to the sources of infection and cultural factors were more significant, especially the latter. Baldwin's comprehensive account of the politics of cholera, smallpox, and syphilis contributes to both the history of medicine and the history of political ideology and cultural values. For example, vaccination against smallpox raised the issue of "the community's right to trespass on personal autonomy"; prostitution (a source of syphilis) engendered battles between regulators and reformers who wanted to end regulation and prostitution itself; the anticholera quarantines met with firm opposition by Britain out of "commercial" concerns. A fascinating tour de force of scholarship.

Spain at the Crossroads. BY VICTOR PÉREZ-DÍAZ. Cambridge: Harvard University Press, 1999, 256 pp. $39.95.

In this impressive sequel to his 1993 work on Spain's democratic transition, Pérez-Díaz's new book covers the 1980s and 1990s—Spain's period of Socialist rule, its decline, and the return of the right in 1996. Far more than a chronicle of political events, the book asks whether Spain has succeeded in becoming what he defines as a civil society: a nation grounded in both state and civic institutions, the rule of law, a successful market economy, and numerous voluntary associations.

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Pérez-Díaz shows that Spain has indeed progressed despite important hurdles: corruption in the Socialist Party, its questionable antiterrorist practices against separatists, and economic woes. In recent years, a free media, independent courts, and economic liberalization have all contributed to Spain's modernization, including its triumph over several scandals. Spain even qualified to join Europe's single currency in 1998 without ripping its social-welfare net. Readers will appreciate the author's subtle analysis, which ranges from a discussion of the family's role in protecting the young to the role of Catalan and Basque nationalists to Spain's modernization in a comparative European perspective.

Western Hemisphere

KENNETH MAXWELL

The New Right in Chile, 1973–97. BY MARCELO POLLACK. New York: St. Martin's, 1999, 214 pp. $65.00.

A timely book in light of the Chilean right's strong second-place finish in the recent presidential elections. Pollack argues that the Pinochet regime's unique combination of neoliberal economics with social and political reforms prompted Chile's most conservative sectors to embrace the market, which ultimately led to the right's realignment after the return of civilian rule. By the 1980s, two wings within this "new right" had emerged: the Unión Demócrata Independiente (UDI), the principal supporters of the regime, and the Renovación Nacional (RN), which sought to modernize by distancing itself from Pinochet's legacy and moving toward European-style conservatism. In the process, the RN created the most efficient party structure in Chile, later establishing contacts with American, British, and German conservatives. In contrast, the hierarchical and more ideological UDI leadership has remained loyal to the military regime's legacy while attempting an appeal to the urban working class. Ironically, the 1998 arrest of Pinochet in London on a Spanish warrant brought both wings together in his defense, ultimately joining forces in the tight presidential race under the leadership of the UDI's Joaquin Lavín. An invaluable delineation of the new forces in Chilean politics in the post-Pinochet era.

The Future of Inter-American Affairs. EDITED BY JORGE DOMÍNGUEZ. New York: Routledge, 1999, 288 pp. $22.99 (paper).

Domínguez takes aim at John Quincy Adams, George Kennan, and even *Foreign Affairs* in this disappointing collection of essays on the future of inter-American relations. These targets represent for Domínguez the "realist" school—accepting of U.S. hegemony, skeptical about multilateralism, doubtful about democracy promotion, or just plain dismissive toward Latin America. His predictable counterproposal calls for greater commitment to multilateral institutions and democratization throughout Latin America. Because of issues such as immigration and drug trafficking, Latin America now "affects the quality of life in the United States," Domínguez warns. But some coauthors are less sanguine about the possibility of change. Pamela Starr sees the IMF remaining unprepared and unable to control financial turbulence;

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Anita Isaacs offers a critical take on democracy activists. Not that Domínguez is a pollyanna. But one wonders whether he has read either Adams or Kennan, who both deployed arguments about Latin America that were more cultural than realist—and whose Yankee skepticism has been revived recently by Samuel Huntington, Lawrence Harrison, and David Landes. Unfortunately, Domínguez prefers to smother this prickly debate with his rigid categories of realism and multilateralism—a simplistic approach that neither Adams nor Kennan would have even contemplated.

Democratic Brazil: Actors, Institutions, and Processes. EDITED BY PETER R. KINGSTONE AND TIMOTHY J. POWER. Pittsburgh: University of Pittsburgh Press, 2000, 330 pp. $50.00 (paper, $22.95).

An exceptionally valuable book with contributions from a new generation of American scholars. Based on fresh research from the 1990s, the volume gives Brazilian democracy a mixed report card: democratic institutions are still problematic; Brazilian society and the rule of law remain highly unequal; and clientelism continues to be pervasive. The contributors all point out that inequality cannot be understood without exploring its ethnic and racial dimensions, which in turn profoundly affect the quality of democracy in Brazil. Still, Brazilian democracy has proven innovative in achieving economic reform, encouraging democratic participation at local and state levels, settling disputes between business and labor, and promoting civil society. Rich in detail and interpretation, this is one of best collective efforts on Brazil in years, reflecting a nation transformed over the past two decades. Despite all the ambiguities, setbacks, and continuing obstacles, the authors make clear that the conditions for sustaining democracy are better than ever.

Crafting Coalitions for Reform: Business Preferences, Political Institutions, and Neoliberal Reform in Brazil. BY PETER R. KINGSTONE. University Park: Pennsylvania State University Press, 1999, 376 pp. $60.00 (paper, $22.50).

In a highly original book, Kingstone examines Brazilian industry's support for the neoliberal reforms of the 1990s, arguing that this turnaround was shaped less by competitiveness than by public policy and political credibility. Based on hundreds of interviews with business executives, the book systematically analyzes different sectors—from pulp and paper to auto parts to machine tools—and examines the shifting opinions within industry lobbying associations. Kingstone sees four factors at work: the negative impact of protectionism, especially import-substitution and the coincident chronic fiscal crisis; the ability of big business to prosper in the face of market liberalization and free trade; the options to adjust within the market; and the government's effectiveness in delivering on its promises, whether through tax cuts, export credits, or fiscal reform. Despite the financial cost, businesses remained surprisingly open to negotiation, something President Cardoso evidently learned during his repeated tactical maneuvers. In the end, he helped achieve a more open economy with the support of those sectors that had previously sought protection from international trade. Thanks to Brazil's fragmented and chaotic politics, Kingstone concludes,

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big business was forced to become nimble and competitive. An important contribution to the study of Brazil's struggle for reform.

Titles, Conflict, and Land Use: The Development of Property Rights and Land Reform on the Brazilian Amazon Frontier. BY LEE J. ALTON, GARY D. LIBECAP, AND BERNARDO MUELLER. Ann Arbor: University of Michigan Press, 1999, 227 pp. $49.50.

How can a government respect land rights while encouraging settlers to adopt productive and rational land-use practices? Against the background of Brazil's highly unequal land ownership, the authors examine the role of bureaucracies and changing property rights in land distribution in the eastern Amazon state of Pará and the southern state of Paraná—two states with rural violence and countless poor farmers seeking access to land. With sophisticated analysis and well-marshaled evidence, the book shows how policies regulating land use and ownership rights have often led to a vicious circle: bungled strategies escalate into conflicts between squatters and landowners; government agencies are then pressured to grant more land titles without the appropriate resources, which in turn motivates large landowners to cut down forests and prove they are putting their land to use to avoid expropriation. A sorry tale of the unintended consequences of flawed institutional solutions. The authors recommend several sound measures to encourage greater voluntary land distribution and reduce violence: increasing the costs of holding idle land, improving the land rental market, and easing land transfers through improved access to credit. A sensible advance in the policy debate over one of Brazil's most contentious problems.

Eastern Europe and Former Soviet Republics

ROBERT LEGVOLD

Capitalism Russian-Style. BY THANE GUSTAFSON. New York: Cambridge University Press, 1999, 264 pp. $54.95 (paper, $19.95).

Who is right about Russia's rocky road to reform—those who think Russia is slowly making its way toward capitalism, however unsteady and compromised, or those who believe no less passionately that the whole process has been hijacked by brigands posing as new capitalists, leaving Russia nowhere? Both, says Gustafson. Russia is midstream in wide and rough waters and cannot go back. The old order has been successfully ruined, but the country does not know how to complete the swim. Mistakes made along the way create large barriers to further progress. Gustafson surveys the whole story better than anyone else to date: the nature of the reforms, privatization, the rise of capital markets, the emergence of a banking system, the character of the new (and not-so-new) capitalists, the scourge of crime, and above all, the enfeeblement of the state. Gustafson concludes that Russia will make it. But how messy, costly, delayed, and harrowing the passage will be depends greatly on how soon Russia regains a state worthy of the name.

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Getting It Wrong: Regional Cooperation and the Commonwealth of Independent States. EDITED BY MARTHA BRILL OLCOTT, ANDERS ÅSLUND, AND SHERMAN GARNETT. Washington: Carnegie Endowment for International Peace, 1999, 271 pp. $19.95 (paper).

The first systematic, broad-based attempt to size up the Commonwealth of Independent States. Until now, there has been no serious attempt to study whether the successor CIS states have built significant new bonds in any sphere—economics, security, border management, anti-terrorism, and the like—or whether, on the contrary, they are still scattering like the pieces of an exploded meteorite. As the authors go through each dimension, including the complex relationship between national-identity formation and interstate cooperation, they find failure on every front. A large part of the reason, not surprisingly, has to do with Russia's imperial past, its often insensitive policies, and the size of its shadow. But the more subtle explanations also look to the self-seeking behavior of the other states. A unique and useful book.

Political Will and Personal Belief: The Decline and Fall of Soviet Communism. BY PAUL HOLLANDER. New Haven: Yale University Press, 1999, 351 pp. $35.00.

From the premise that communism existed largely in the minds of those who commanded it, Hollander assumes that its death must have resulted from changes inside their heads. He then asks how the system's managers lost their faith—and what happened that led them to begin the fatal tinkering that brought the empire down. Resourceful in chasing the answer, Hollander not only wades through the memoirs, autobiographies, and biographies of all the key actors and many of the supporting cast; he also uses the stories of defectors and dissidents to understand when and why beliefs crumbled. This produces many fascinating personal stories but ultimately offers a weak solution to his core puzzle. Gorbachev and the other relevant figures, it turns out, offered little insight about themselves. They either do not know—or do not say—how their shaken beliefs altered their actions.

Milošević: Portrait of a Tyrant. BY DUSKO DODER AND LOUISE BRANSON. New York: Free Press, 1999, 304 pp. $25.00.

Doder and Branson despise their biography's subject—or rather subjects, since they write almost as much about Mirjana Marković as about her husband. Other than the Serb leader's straight-arrow youth and the couple's deep mutual devotion, not much else of worth comes through. Both Milošević's character—cunning, charming, ambitious, and authoritarian—and the sad, violent course of events since he came to power in the 1980s are by now well

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and oft told. Doder and Branson turn the familiar into a swift-flowing, highly readable account by dispensing with elaborate analytical context and concentrating on Milošević's maneuverings, dramatic events, and even behind-the-scene conversations when possible. The book drives home how much the opportunistic exploitation of Serbian nationalism originally was underpinned by deep communist convictions—and for Marković, probably still is.

Unarmed Forces: The Transnational Movement to End the Cold War. BY MATTHEW EVANGELISTA. Ithaca: Cornell University Press, 1999, 406 pp. $39.95.

This book will help educate those who think the course of the Cold War and its end—or for that matter any important dimension of international politics—were driven only by governments, national leaders, and vast political forces. During much of the postwar U.S.-Soviet confrontation, small groups of scientists, scholars, and former policymakers from the two countries met informally and probed better management of the nuclear arms competition, regional conflicts, and other sources of tension in ways public officials could not. Using archives, interviews, and a wide range of publications, Evangelista painstakingly reconstructs the substance of these encounters and traces how the process filtered into Soviet policymaking circles. Under Gorbachev, these efforts significantly influenced Soviet approaches to nuclear testing, START, and conventional arms reductions. A smart, well-argued, and unassuming book.

Days of Defeat and Victory. BY YEGOR GAIDAR. Seattle: University of Washington Press, 2000, 342 pp. $30.00.

Here in English are the 1996 memoirs of one of the most intriguing figures from the critical first years of the new Russia. His account is most engaging and eye-opening when tracing his evolution into a Western-style market economist within the Soviet context; it is most revealing when telling how the economic reform came to be and what happened thereafter. This book is doubly valuable: first, for the inside information it provides; second, for the insight into the character of a man both talented and politically naïve, candidly self-critical and utterly unquestioning in his economic convictions and low regard for the intellectual capacities of those who disagree with him.

Anthrax: The Investigation of a Deadly Outbreak. BY JEANNE GUILLEMIN. Berkeley: University of California Press, 1999, 321 pp. $27.50.

In April 1979, at least 64 people died from anthrax in a workers' district of Boris Yeltsin's hometown of Sverdlovsk. Guillemin and her husband, the Harvard biologist Matthew Meselson, served on a team quest to determine whether the epidemic resulted from tainted meat (as Soviet authorities had insisted) or from biological toxins accidentally escaping a local military research facility. The narrative of their trips to Russia, interrogations of the medical officials on the scene, examinations of the autopsy evidence, visits to the area, and interviews of victims' families reads like a first-rate medical detective story—albeit one that, if made into a movie, would be three hours long. One hates to give away the ending to a

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suspense story, but the authors finally conclude that the military did it.

Russia and the West: The 21st Century Security Environment (Eurasia in the 21st Century, Vol. I). EDITED BY ALEXEI ARBATOV, KARL KAISER, AND ROBERT LEGVOLD. Armonk: M. E. Sharpe, 1999, 272 pp. $62.95.

Russia, the Caucasus, and Central Asia: The 21st Century Security Environment (Eurasia in the 21st Century, Vol. II). EDITED BY RAJAN MENON, YURI E. FYODOROV, AND GHIA NODIA. Armonk: M. E. Sharpe, 1999, 288 pp. $62.95.

Russia and East Asia: The 21st Century Security Environment (Eurasia in the 21st Century, Vol. III). EDITED BY GILBERT ROZMAN, MIKHAIL G. NOSOV, AND KOJI WATANABE. Armonk: M. E. Sharpe, 1999, 256 pp. $62.95.

While observers have noisily debated the paths and perils of the revolution within Russia in recent years, a cohort of security specialists has quietly toiled away to assess its impact on Russia's relations with the world. Some recent results are impressive, like this timely three-volume *tour d'horizon.* Comparative in its approach but coherent, it contains the radically different points of view of a truly international list of authors. Even though written before 1999, the chapters on Kosovo and Chechnya appear prescient rather than dated, thanks to the series' broad but sensible post–Cold War approach to security. Some authors tackle "traditional" security issues, such as the state of nuclear and conventional forces inherited from the Soviet Union. Others assess "nontraditional" issues not unique to Russia, such as economic security, drug trafficking, and the environment. Yet many of the qualities inherent in the "new" problems derive from the collapse of the Russian empire, its redrawn borders, the weakness of institutions within the Russian state, and the clash between historical legacies and post-Soviet identities in the region. Most striking is the divergence between the numerous threats (traditional and nontraditional) that the Russian authors perceive and those detailed by the non-Russian authors. Given all this, no wonder the title of the series promises a bit more than it can deliver; after all, the 21st century has only just begun. Nevertheless, the complexities of the new security environment and the authors' thoughtful analyses make this series required, if unsettling, reading for Russia scholars and policymakers alike.

SARAH E. MENDELSON

Middle East

L. CARL BROWN

Sanctioning Saddam: The Politics of Intervention in Iraq. BY SARAH GRAHAM-BROWN. London: I. B. Tauris, 1999, 380 pp. $35.00.

The time between the Iraqi invasion of Kuwait in August 1990 and the U.S.-led military campaign that reversed it was a matter of months. Not so the postwar "settlement"—nine years later, both sanctions and Saddam survive. The Iraqi people suffer, Kurdish leaders contend for power, the anti-Saddam international coalition frays, and the Iraqi regime appears determined to produce weapons of mass destruction. *Sanctioning Saddam* describes this tragedy in a painstakingly researched, judicious, and readable account of the

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years since early 1991. Organized to serve as a comprehensive reference work—with sidebars distilling complex issues into a page or less, a copious bibliography, and an appended chronology on "The Use and Threat of Force Against Iraq, 1991–1999"—this book deserves to be read straight through as a sobering case study of international intervention in the post–Cold War world. Graham-Brown also demonstrates the difficulties of coalition politics and the need for long-term strategic planning. Excellent chapters on economic sanctions and the Iraqi Kurds stand out, but all chapters clarify the intractable complexity of this issue.

Islam and Gender: The Religious Debate in Contemporary Iran. BY ZIBA MIR-HOSSEINI. Princeton: Princeton University Press, 1999, 305 pp. $55.00 (paper, $18.95).

Anthropologist Mir-Hosseini presents her transcribed discussions with Iranian religious figures during research trips back to her native land. All but one (Abdul Karim Soroush) are clerics, and three are ayatollahs. Together, they represent three tendencies: the traditionalists who accept gender inequality, the "neo-traditionalists" who seek "gender balance" while staying within the traditional Islamic legal paradigm, and the modernists who demand gender equality and a more flexible Islamic legal system. Mir-Hosseini also describes women's journals in Iran and the public discussion of gender. These debates, just like their subjects, are often veiled. Soroush, for example, largely avoids gender issues but argues that his call for a modernized Islam paves the way for gender equality. One cleric interviewed even insisted that Ayatollah Khomeini felt obliged to hold back on talking about women's issues. Given that the clerics, so scholastic in every sense of the word, are both the ideologists and the wielders of power in Iran, this book is important for probing the range of their thought.

Empires of the Sand: The Struggle for Mastery in the Middle East, 1789–1923. BY EFRAIM KARSH AND INARI KARSH. Cambridge: Harvard University Press, 1999, 409 pp. $29.95.

The years from the late eighteenth century to the post–World War I settlement that dismembered the Ottoman Empire are rightfully a classic topic in diplomatic history. From this age emerged both the new states and the new ideologies—ethnic, cultural, and religious nationalisms—of today's Middle East. Focusing mostly on the years between 1914 and 1923, *Empires of the Sand* makes three major points. First, the Middle Eastern political actors were not mere pawns but active participants in deciding the "Eastern Question" (i.e., the Ottoman Empire's fate); second, the European powers were reluctant to break up the Ottoman Empire; and third, Atatürk's Turkey absorbed the logic of the nation-state while others remained caught up in impossible imperial dreams. An aura of musty old disputes about the Hashemites and the Arab Revolt suffuses the last chapters, debates that other scholars have by now transcended. Well-researched and forcefully presented, *Empires in the Sand* is a serious effort that nonetheless seems somewhat off-target. Middle Easterners had their role, but the decisive players were the Europeans—who, after all, dismantled the Ottoman Empire. David Fromkin's *A Peace to End all Peace* still offers a better account.

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Strengthening Palestinian Public Institutions: Report of an Independent Task Force. EDITED BY MICHEL ROCARD. New York: Council on Foreign Relations Press, 1999, 123 pp. $7.00 (paper).

The Transformation of Palestinian Politics: From Revolution to State-Building. BY BARRY RUBIN. Cambridge: Harvard University Press, 1999, 288 pp. $29.95.

The Council on Foreign Relations task force on Palestinian public institutions included four Europeans who have served as prime minister and three as foreign minister, as well as former members of Congress Nancy Kassebaum Baker and Lee Hamilton, and other high-ranking Europeans and Americans. They personify a powerful Euro-American concern to make Palestinian institutions work. But not surprisingly, this quasi-official report offers somewhat bland findings, balancing "achievements" with "challenges" and largely ignoring the overall political context surrounding the Palestinian Authority. Fortunately, that missing context is presented in Rubin's book—a refreshing account that is moderately sanguine without stinting on any of the several dark spots. Rubin also manages a balanced presentation of all the many different players in this ongoing Palestinian drama—Yasir Arafat, the PLO, Hamas, the many Israeli political groupings, the Arab states, the United States, and the international community. With nine detailed but succinct chapters, this book is an eminently readable achievement.

Jordanians, Palestinians, and the Hashemite Kingdom in the Middle East Peace Process. BY ADNAN ABU-ODEH. Washington: United States Institute of Peace Press, 1999, 286 pp. $37.50 (paper, $19.95).

The territory known eight decades ago as the British Mandate of Palestine, which later split into Palestine and Transjordan and emerged after the 1948 Arab-Israeli War as Israel and Jordan, now seems destined to add a third state, Palestine. But even if that happens, the Palestinians—those Arabs tracing their roots to the west of the Jordan River—will remain a significant minority in Israel (around 20 percent). And although some observers dispute the estimate, Palestinians may well form a majority in Jordan. The sorting out of territorial boundaries and national identities is a complex story, told here from the special perspective of Jordan. Abu-Odeh, a longtime political adviser to the late King Hussein, offers a positive but not uncritical account of the Hashemite policies. A Palestinian native of Nablus, he also elucidates an issue often overlooked: the tensions within Jordan between East-Bank Jordanians ("Transjordanians") and Palestinian-Jordanians.

Land and Power: The Zionist Resort to Force, 1881–1948. BY ANITA SHAPIRA. Stanford: Stanford University Press, 1999, 446 pp. $24.95 (paper).

The rise of Ehud Barak—a brainy Jewish warrior-hero turned peacemaker—makes the reissue of this 1992 classic even more timely. Barak is merely the endpoint of a long process in the historical evolution of Jewish attitudes toward the use of force. This brilliant intellectual history by a distinguished Tel Aviv University scholar shows how the exilic Jewish aversion to *Machtpolitik* shriveled in the crucible of state-building. Mainstream Zionism, which never saw itself as a movement of European usurpers, evolved what Shapira calls a "defensive ethos" under British

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rule that skirted both compromise and confrontation with the Arabs. It hoped to dull enmity by offering Palestine's Arabs everything as individuals but nothing as a people. But when the proto-*intifada* of the Arab Revolt erupted in 1936, a new "offensive ethos" recognizing the inevitability of an Arab-Jewish clash and the legitimacy of the sword gained ground among Mandate Palestine's Jews. Shapira's lucid, searching book—a model of historical curiosity and craft—is indispensable for anyone seeking to understand modern Israel, whose sense of its own power coexists painfully alongside a sense of fearful victimhood.

WARREN BASS

Asia and the Pacific

LUCIAN W. PYE

Kawari: How Japan's Economic and Cultural Transformation Will Alter the Balance of Power Among Nations. BY MILTON EZRATI. Cambridge: Perseus Books, 1999, 294 pp. $26.00.

The Logic of Japanese Politics: Leaders, Institutions, and the Limits of Change. BY GERALD L. CURTIS. New York: Columbia University Press, 1999, 281 pp. $27.95.

The Japanese economy that was once the envy of the world has been in deep trouble for a decade, but no Japanese consensus on necessary reforms has yet emerged. Ezrati argues that Japan's rapidly aging population will undermine the industrial exporting economy that has served it so well since World War II. As a result, it faces a transformation as massive as the Meiji Restoration and the American-led postwar occupation. This time, the author believes, Japan will have to move its industrial investments to the rest of Asia and become a "headquarters nation." The imperatives of supporting such a new structure will force Japan to become an aggressive leader of Asia, with greatly expanded military capability.

Curtis also sees changes ahead—but mainly those that retain the status quo. Building on his intimate knowledge of Japanese politics, Curtis stresses with empathy the context and opportunities that shape and restrict Japanese political behavior. For him, new developments in Japan include a realignment of interest groups, a decline in bureaucrats' status, and a more demanding electorate—all of which make consensus more difficult. And unlike Ezrati, Curtis finds Japanese politicians too constrained by their immediate realities to redesign a totally new system.

In essence, Ezrati describes the forest without depicting the trees, whereas Curtis focuses on the trees—indeed the leaves—so his forest is a bit vague. Curtis is closer to reality, but Ezrati is bolder and more speculative, expecting that the logic of necessity will be enough to change the basic character of the Japanese people.

Secret War in Shanghai. BY BERNARD WASSERSTEIN. Boston: Houghton Mifflin, 1999, 355 pp. $26.00.

On the eve of World War II, Shanghai was the most cosmopolitan city in Asia. People lived by their wits as con artists, swindlers, and charlatans, and continued to ply their skills when the city was engulfed by war. Wasserstein has brilliantly captured both the ambiance of the time and the personalities of its many shady actors. Everyone schemed against everyone else; the Allies alone had 15 intelligence

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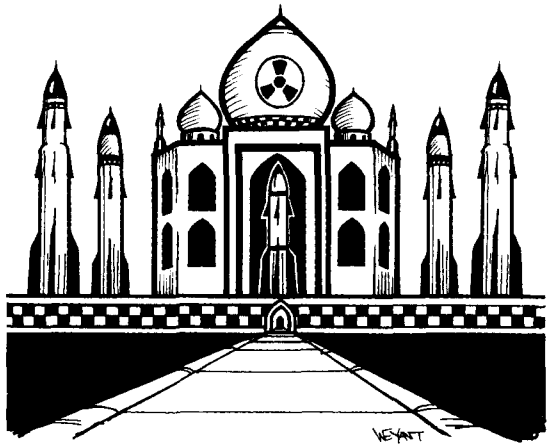
agencies operating in the city. The Germans and Japanese, given their ideological concerns about racial superiority, did not fully trust each other. The Russians were divided between Communists and White Russians, the Chinese among Nationalists, Communists, and Japanese puppets. The 20,000 Shanghai Jews had 17 journals that reflected their divisions. Meanwhile, the rickety authority of the International Settlement, the Western-run protectorate, held off Japanese domination but could not effectively police the society. Although the Shanghai presses were busy with their respective causes, ideology often played only a marginal role. People with shady backgrounds sold out their countries. Indeed, Shanghai's self-contained social world kept the intelligence agencies so busy that it did not seem to matter that their activities had almost no effect on the war itself.

India's Nuclear Bomb: The Impact on Global Proliferation. BY GEORGE PERKOVICH. Berkeley: University of California Press, 1999, 597 pp. $39.95.

An extraordinary and perhaps definitive account of 50 years of Indian nuclear policy-making. For all of Nehru's moralizing about the bomb's evils, Perkovich writes, he started India down the nuclear road when he founded the Indian Atomic Research Center. Indian scientists soon became a self-motivated force for the bomb, while the West's arguments for nonproliferation only stimulated India's desire to become a nuclear power. Perkovich shows that the Indian decision to build the bomb did not respond to external security threats but to the domestic Indian need to assert its national identity, break from its colonial legacy, and become the great power that it felt it should rightfully be—a complex mix of domestic and psychological factors. Although the study tells more about domestic Indian affairs than most international relations generalists will want, it should be taken seriously by all concerned with proliferation. With painful clarity, it exposes the false illusions that have limited the effectiveness of proliferation opponents.



War at the Top of the World: The Struggle for Afghanistan, Kashmir, and Tibet. BY ERIC MARGOLIS. New York: Routledge, 2000, 256 pp. $26.00.

A vivid account of warfare in the highest mountain ranges in the world. War correspondent Margolis covered the fighting in Afghanistan and Kashmir, the crisis in Tibet, and the border standoff between India and China. He begins by providing an excellent review of the Marxist takeover in Afghanistan in the late 1970s and the subsequent struggle that brought in the Soviet Union and Islamic fundmentalists. As Margolis sees it, the success of the Islamist forces in Afghanistan heightened tensions in Kashmir, provoking a nationalist turn in both Pakistan and India.

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Much of his writing's power comes from the descriptions of soldiering at 15,000 feet up and 60 degrees below. But Margolis is equally interested in describing the new "Great Game" now being played out by four nuclear powers—China, India, Russia, and Pakistan—and warns that they may be "locked in a long-term rivalry that may erupt into the first major conflict of the twenty-first century." Although backed by considerable evidence about the seriousness of the Kashmir conflict and the instability of Afghanistan, his alarmist depiction of Chinese-Indian tensions is less convincing, perhaps brought into the analysis for an inflated big-power dimension.

Africa

GAIL M. GERHART

Africa's New Leaders: Democracy or State Reconstruction? BY MARINA OTTAWAY. Washington: Carnegie Endowment for International Peace, 1999, 138 pp. $10.95 (paper).

Hostile to Democracy: The Movement System and Political Repression in Uganda. BY HUMAN RIGHTS WATCH. New York: Human Rights Watch, 1999, 173 pp. $15.00 (paper).

In a cogent policy study, veteran Africa analyst Ottaway considers the politics of Uganda, Eritrea, and Ethiopia—three impoverished countries emerging from years of warfare and authoritarian rule. Each has a dynamic national leader dedicated to economic development but less enthusiastic about multiparty democracy. Ottaway uses each country's history to develop an argument contrary to the West's standard recommendation that all African countries immediately adopt multiparty systems. In her view, such a step presupposes the existence of state power and authority, but collapsed states need to be reconstructed before competition for leadership is appropriate. In turn, state reconstruction requires strong leadership, which comes with the risk of a slide toward personal rule. Nevertheless, Ottaway argues, foreign donors can help establish the foundations of democracy (e.g., pluralism, the rule of law, and independent media) while waiting out the process of state reconstruction as part of a long-term effort to foster democratic outcomes.

Taking issue with this approach, Human Rights Watch makes the case for upholding the rights to free association and assembly in Uganda. In their view, President Yoweri Museveni's "no-party" system, which has imposed his own "movement system" as a government of national unity, has come to resemble a one-party state in all but name. Uganda's achievements in economic reconstruction and its efforts to promote human rights in other ways do not justify its suppression of political rights. Nor does it allow Western governments and multilateral lenders to turn a blind eye to this suppression. It is a serious debate with merit on both sides.

Rivonia's Children: Three Families and the Cost of Conscience in White South Africa. BY GLENN FRANKEL. New York: Farrar, Straus & Giroux, 1999, 381 pp. $25.00.

If South Africa ultimately consolidates an enduring multiracial democracy, its

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success will be due partly to the unusual courage of a small number of whites who put careers and families aside and threw themselves into opposition politics at a time when the prospects for success were negligible and the costs of conscience extremely high. Many of these activists were nonreligious Jews of East European extraction who had found an ideological home in the South African Communist Party. Frankel, a Pulitzer Prize–winning journalist and former Johannesburg bureau chief for *The Washington Post,* has focused on three of these families, weaving together a gripping account of their tense and traumatic lives in the 1950s and 1960s. Although the book breaks little new ground historically, it offers the general reader a dramatic glimpse into an era when South Africa's future was at a crossroads and only a few brave souls, white as well as black, chose the path less traveled.

ANC: The View from Moscow. BY VLADIMIR SHUBIN. Bellville, South Africa: Mayibuye Books, 1999, 232 pp. $25.00.

The author of this unique book was a high-level Soviet official who was involved for many years in aiding the African National Congress and its ally, the South African Communist Party, in their war against apartheid. He seeks to discredit the idea that the ANC, which depended on Soviet aid, was ever really under the sway of the Kremlin; instead its relationship with the Soviet Union was a reciprocal one of friendly mutual trust. As he sees it, the Soviets dispensed weapons, equipment, money, training, scholarships, air tickets, medical care, and paid holidays in return for the satisfaction of helping a noble cause. More useful than the analysis is the profusion of factual and anecdotal details about levels of Soviet aid (liberation movements too friendly to China had their allocations slashed), the frequent consultations between South African and Soviet decision makers between 1960 and 1990, and the complex process of disentanglement that began in the late 1980s as Gorbachev, in moves that Shubin condemns, maneuvered closer to the West and the Pretoria regime to help fend off economic collapse.

Ethnicity and Nationalism in Africa: Constructivist Reflections and Contemporary Politics. EDITED BY PARIS YEROS. New York: St. Martin's, 1999, 155 pp. $59.95.

This instructive collection of seven essays explores the range of theories that maintain that ethnic identities are socially and politically constructed, not primordial. Debates about the nature of ethnic identity began in earnest about 20 years ago among social scientists studying Africa. Over the last decade, research and writing on the subject has mushroomed so much that this volume can now distinguish among constructivists who are transactionalists, inventionists, instrumentalists, and proponents of moral ethnicity—an analog of the concept of moral economy. Although most contributors treat ethnic politics as an object of empirical investigation, two authors focus on its normative aspects—which, over the long run, they believe, could engender less exclusionary and more hybrid concepts of identity among citizens of African states.

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Mistaking Africa: Curiosities and Inventions of the American Mind. BY CURTIS A. KEIM. Boulder: Westview Press, 1999, 209 pp. $65.00 (paper, $22.00).

This sparkling little book aims to enlighten American undergraduates encountering Africa in the classroom for the first time, but even veteran Africanists will benefit from its dissection of the stereotypes and myths that surround everyday perceptions of Africa in the United States. Many Americans, the author says, use Africa as a psychological foil to reinforce their existing attitudes toward America—either as a safe, comfortable, and highly "developed" country, or as a debased and imperfect society in need of wisdom from a more wise and pure continent. He suggests that Americans drop their misleading quest for the "real" Africa, along with evolutionist ideas about culture and development, and learn to understand Africans as they present themselves in all their diversity—as "others" who are in fact not so different.

International Studies

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Letters to the Editor

William F. Schulz on Rwanda;
Richard L. Garwin and Kosta Tsipis on nuclear power; and others

THE PATH NOT TAKEN

To the Editor:

Alan J. Kuperman's analysis of the Rwandan genocide ("Rwanda in Retrospect," January/February 2000) raises important and troubling questions about the international community's ability to respond to mass slaughter. Kuperman is correct that many groups, including my own organization, were tardy in labeling the killings in Rwanda "genocide," and several of his practical suggestions are well taken. But in at least three crucial aspects, his perspective is misguided—and if adopted by policymakers in the future, even dangerous.

Although the exact dimensions of the carnage may not have been known for several weeks, once they were revealed there was no excuse not to believe that the killings could quickly assume a massive scale. There was ample precedent in Rwanda for such widespread bloodshed, as human rights organizations had been reporting for years. One year before the 1994 genocide, the U.N. Commission on Human Rights' own expert on extrajudicial executions visited Rwanda and issued detailed recommendations in August 1993 to address "massacres of civilian populations" in which "it has been shown time and time again that government officials were involved."

What Kuperman is at pains to deny is that, quite apart from a lack of information, the U.N.'s inaction—fully abetted by the United States—was caused by an utter failure of will. We do not need the U.N.'s damning self-assessment to know that, whether or not General Romeo Dallaire's call for additional troops would have prevented the slaughter, his recommendations were not even relayed to the Security Council by the secretary-general. Michael Barnett, the political officer responsible for Rwanda at the U.S. Mission to the U.N., made this clear in 1997. Furthermore, Secretary-General Boutros Boutros-Ghali's unwillingness to risk entanglement was buttressed by demands from the United States, fearing another Somalia, to withdraw the troops already in place. National Security Adviser Anthony Lake assured human rights representatives that only massive public pressure could reverse that course—a reality confirmed by the State Department's tortured word games to avoid the term "genocide," which would have triggered treaty obligations to respond. President Clinton has rightly apologized for the sabotage of potential interventions, but Kuperman's thesis implies that the president donned that embarrassing haircloth for no good reason.

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But let us assume for a moment that Kuperman is right and that ignorance as well as unfeasibility can account for U.N. and U.S. passivity. The second unfortunate implication of Kuperman's thesis is that we are under a moral imperative to stop genocide only when we can stop it completely. Even if late intervention at a minimal level could have saved "only" 75,000 lives, he does not explain how that exempts us from making the effort. Nor is Kuperman's premise that U.S. troops would have had to lead any military action self-evident. Had the United States rallied Belgium, France, or any number of African countries to reinforce the United Nations Assistance Mission in Rwanda and promised appropriate support, thousands of Rwandan lives might have been spared.

Although not an exact parallel, the recent situation in East Timor is instructive. Not only was U.S. support for Australia's intervention pivotal in stopping the military-initiated rampage there, but U.N. High Commissioner for Human Rights Mary Robinson's implicit threat to hold Indonesian leaders responsible for the crimes played no small part in gaining their cooperation. In light of that experience, Kuperman's easy assumption that Hutu extremists would not have been intimidated by the announcement of a deployment or even by the arrival of troops is questionable.

But Kuperman's final observation is perhaps his most careless. He writes that humanitarian interventions create "perverse incentives for weaker parties in such conflicts to reject compromise and escalate fighting because they expect foreign intervention or hope to attract it." This dynamic may be at work in some cases, but Kuperman cannot seriously contend that the victims in Rwanda or the innocent voters in East Timor calculatedly invited their fates. Nor does this hypothetical moral hazard justify inaction in the face of genocide. The world has ignored people responsible for such violence before; that strategy cost us some 150 million lives in the twentieth century alone. Whether it be (ideally) through international legal structures or, in extreme cases, through humanitarian intervention, surely it is worth trying a different approach in the 21st century. Making killers consistently pay for their crimes will not eliminate mayhem at the international level any more than it does at the domestic level, but it could at least reduce the cost.

WILLIAM F. SCHULZ
Executive Director, Amnesty International USA

NUCLEAR REACTION

To the Editor:

Richard Rhodes and Denis Beller are right that the world needs more energy ("The Need for Nuclear Power," January/February 2000). And nuclear energy has an important role to play, both globally and in the United States. But misleading arguments will not ensure that future. For instance, the authors write that nuclear recycling "could extend nuclear fuel supplies for thousands of years." Actually, recycling can extend nuclear fuel supplies by about 20 percent, but at a cost much greater than that of the uranium saved. It would take a widespread deployment of breeder reactors to extend nuclear fuel supplies by a factor of 100 or so.

It is true that "nuclear waste disposal is a political problem in the United States because of widespread fear disproportionate to the reality of risk." But it is a disjunction

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to then say that "it is not an engineering problem, as advanced projects in France, Sweden, and Japan demonstrate." The disposal of spent reactor fuel into mined geologic repositories is at least as far advanced as the ultimate disposal of the high-level wastes from reprocessing that will be needed in France and Japan. Not a ton of either of these materials has yet been permanently placed underground.

It is striking that "in equivalent lives lost per gigawatt generated (that is, loss of life expectancy from exposure to pollutants), coal kills 37 people annually; oil, 32; gas, 2; nuclear, 1." According to the U.N. Special Committee on the Effects of Atomic Radiation, the once-through approach provides a worldwide exposure to radiation of 152 person-sieverts (p-Sv), which at 0.04 lethal cancers per p-Sv means about 6 deaths ultimately (per 10,000 years). For the processing and recycling approach, the exposure is 341 p-Sv, or about 13 deaths per 10,000 years during the operation of a single power plant. Of these, fewer than 1 death occurs in the first 500 years for once-through, and about 1 death occurs for the recycle approach during the same time span. The authors must be ignoring deaths beyond the first 500 years.

Nor is it relevant that a "single mile of gas pipeline three feet in diameter at a pressure of 1,000 pounds per square inch (psi) contains the equivalent of two-thirds of a kiloton of explosive energy; a million miles of such large pipelines lace the earth." There is no conceivable mechanism to produce a gas explosion of that magnitude. It is equally misleading to say that a power reactor contains some two tons of uranium 235, which is the equivalent of 100 megatons of explosive energy.

Rhodes and Beller observe that "large nuclear power plants require larger capital investments than comparable coal or gas plants only because nuclear utilities are required to build and maintain costly systems to keep their radioactivity from the environment." But there is a good reason for this: they have a millionfold more radioactivity to retain.

Modern nuclear plants can be operated safely. But the industry continues to suffer from an unacceptable level of worker errors. The lack of quality control compromises safety. The pressure to cut costs has also led management at some plants to cut safety corners. And the Nuclear Regulatory Commission has imprudently allowed the industry to relax safety standards. Regulation must ensure that major accidents that release radioactivity to the environment—like Chernobyl in 1986—do not happen again.

Nuclear energy in the short term needs access to proper storage for waste: competitive and commercial geological repositories for properly packaged spent fuel or reprocessing wastes (encased in glass and steel) from countries throughout the world. The long-term fuel supply for nuclear power is assured by the 4 billion tons of uranium in the oceans, available to any nation at a per-ton cost less than that of a ton of uranium saved by reprocessing and recycling nuclear fuel. Two billion tons would feed 5,000 nuclear plants (compared with the 430 that now exist) for 2,000 years. The use of breeder reactors would extend this resource for 400,000 years, but there is no reason to move to breeders during this millennium, since the spent fuel from reactors remains a resource for breeders.

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Certainly, there is room for market-driven innovations in nuclear reactors and the fuel cycle, including reductions in radiation exposure from mining and milling and from reprocessing. But the availability of nuclear power to fill a portion of the world's energy needs does not depend on such innovations.

RICHARD L. GARWIN

Philip D. Reed Senior Fellow for Science and Technology and Director, Science and Technology Studies, Council on Foreign Relations

To the Editor:

Richard Rhodes and Denis Beller are correct that nuclear power can become the preferred source of electricity for urban areas with high population densities. But because of transmission costs, centrally generated nuclear power is not a practical source of electricity for rural areas with low population densities—where 2.7 billion people, mostly in China and India, currently live without electricity. This population, projected to grow to 4 billion by 2030 or so, now produces more than half the globe's 2 billion tons of cereal harvest annually.

This population should be encouraged to stay on its land to help grow the additional billions of tons of cereals that the world will require by the middle of the century. But to do so, it needs enough electrical power. In fact, 50 square meters of photovoltaic solar arrays per household can generate the needed power at middle latitudes. Since much of this power is used after sundown, a device that can efficiently and repeatedly store a few kilowatt-hours of solar-generated electrical energy is needed. This would allow centrally generated electricity from nuclear reactors to be confined to cost-effective usage in high-density urban and industrial areas. The required storage devices need not be compact, lightweight, or portable, as in the case of electric cars. But they should be efficient, reliable, durable, nonpolluting, and affordable. No such devices exist today, and vigorous research will be needed to develop them. But the solution is not beyond current capabilities.

Matching the power-density properties of the sources of electrical power to the geographic density of prospective consumers is a rational way of addressing the long-term energy needs of the expanding global population.

KOSTA TSIPIS

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MORE TO THE WORLD THAN OIL

To the Editor:

Amy Myers Jaffe and Robert A. Manning may be entirely correct in pointing to the misguided race for new sources of energy amid an upcoming oil glut ("The Shocks of a World of Cheap Oil," January/February 2000). Certainly America's diminished dependence on Persian Gulf oil will reduce its willingness to spend millions of dollars on defense there. And the authors usefully acknowledge the relationship between falling oil prices and improvements in technology and efficiency.

But there is more to geopolitics than oil. In particular, the economic and political futures of the Central Asian and Caucasian states may seem remote to Americans. But they do matter a great deal to Russia, Iran, China, India, and Turkey—that is, to every major power in Eurasia—because of border stability,

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ethnic conflict, and national prestige, not simply because of energy security. We should not forget that instability in Eurasia has always spread to the Atlantic world. The next global balance of power will be brought about by these states and must be anticipated through their eyes. It cannot be divorced from overall U.S. interests in the next few decades, nor can the United States remain aloof from the problems that most concern Eurasia.

Thus NATO and other Western organizations are justified in paying attention to the region. And this involvement predates any alleged attempts to defend pipelines or thwart Russian, Iranian, or Chinese interests; rather, it, like the Partnership for Peace (PFP), was designed as a vehicle to align Western security interests with those of the post-Soviet states, including Russia. NATO's enlargement and its actions since 1995 have made this difficult, but this has little to do with any nefarious "new PFP commitments."

Meanwhile, the U.S. Agency for International Development and other U.S.-backed sources do, in fact, support "technical training, agricultural reform, humanitarian aid, and institution-building." The reason why U.S. military involvement with these countries appears proportionally greater is because it falls within the budget of the government department granted the most funding by Congress, including for missions like English-language training—which could easily be handled by other agencies or, ideally, by nongovernmental organizations.

KENNETH WEISBRODE

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THE STAR WARS FLOP

To the Editor:

Michael O'Hanlon's supposedly dispassionate assessment of ballistic missile defenses at home and abroad conceals a not so moderate and nuanced advocacy for the latest version of Star Wars ("Star Wars Strikes Back," November/December 1999). Although some opposing arguments are assessed, at least three vital considerations are completely omitted.

First, O'Hanlon discusses at length how to help Russia swallow the bitter pill of ballistic missile defenses but provides almost no analysis of the strategic implications for U.S. relations with China. Second, he never explains why deterrence, which has been for decades the basis of American defenses against strategic missile attacks, would not work against so-called rogue states or terrorists. Finally, he fails to assess the likelihood that a unilateral U.S. deployment of ballistic missile defenses would create new security dilemmas with both Russia and China.

In contrast to the beliefs of some American analysts of the Chinese military threat, it is actually the small size of China's nuclear weapons capability that would make U.S. deployment of ballistic missile defenses such a serious problem for China. The International Institute for Strategic Studies (IISS) notes that China's strategic capability is composed of fewer than 200 nuclear warheads, of which perhaps only 20–30 would be operational at any time. Russia can still overwhelm any conceivable anti-ballistic missile (ABM) system, but for China, national missile defense (NMD) would threaten its basic nuclear deterrent. The IISS concludes that if the United States chooses

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NMD, a head-on collision with China will be difficult to avoid.

After North Korea's test of the Taepo Dong 1 missile fired through Japanese airspace in August 1998, Tokyo agreed to conduct joint research with Washington on a theater missile defense (TMD) system that could, in the future, include South Korea and Taiwan as well. Chinese analysts have characterized Japanese fears of a North Korean missile attack as an excuse for participating in a TMD arrangement obviously aimed at China. Seen from Beijing, an East Asian TMD program looks like a new multilateral security alliance against China. If this TMD system were to include Taiwan, that would make things even worse.

The real strategic threat from rogue states or terrorists comes not from ballistic missiles but from weapons of mass destruction (WMD), which are very difficult to trace. The logical alternative to missiles for a state or terrorist organization wanting to attack the United States with WMD is the "suitcase bomb," which could be brought into the country covertly, assembled, and detonated in such a way that its origins would be disguised—minimizing the likelihood of retaliation. With the exception of the Nunn-Lugar-Domenici amendment in 1996—a vital first step in Washington's effort to address the problem of terrorist WMD attacks—it is surprising that the federal government has done so little while committing billions of dollars to research NMD.

In the decade of post–Cold War politics, we have so far avoided a new security confrontation between the major powers. For example, despite the many problems in the U.S. relationship with China, Beijing has not sought to ally with other major powers (like Russia, India, or Japan) against the United States or provoke the United States into an arms race.

All agree that the deployment of NMD would violate the 1972 ABM treaty, long thought to be a cornerstone of the global nuclear arms-control regime. The Clinton administration has already approached Moscow about revising the ABM treaty, but the Russians are adamantly opposed. And on November 5, 1999, Russia won support from many U.S. allies when the First Committee of the U.N. General Assembly voted overwhelmingly to preserve the ABM treaty.

European allies are concerned that if the United States deploys missile defenses, Russia and China will be forced to build weapons sufficient to overcome these defenses to maintain their basic nuclear deterrent. Moreover, if the system actually works, they fear that NATO will become divided into two parts: a United States with missile defenses and a Europe without. As German Foreign Minister Joschka Fischer has argued, this could split the alliance.

In a globalized world, there are already established patterns of cooperation and well-used channels of communication, especially among the major powers. Governments have become accustomed to focusing on the absolute benefits of cooperation for all participants rather than on the relative benefits that realists insist must be the focus of strategic relations. A unilateral deployment of ballistic missile defenses by the United States could lead to regional and even global arms races, polarizing the world anew and making enemies of countries that are now only competitors. America would lose the priceless opportunity

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provided by globalization and the collapse of the Soviet Union to build new security arrangements with potential adversaries rather than against them. And our future would be the security dilemma of earlier times, a condition in which everyone's security—including America's—would be diminished.

PETER VAN NESS

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DESENSITIZED

To the Editor:

In "A Farewell to Arms Inspections" (January/February 2000), Daniel Byman writes, "In June 1996, UNSCOM Chair Rolf Ekéus agreed that his teams would avoid 'sensitive' sites...." This is not correct. In the agreement (between myself and Deputy Prime Minister Tariq Aziz), the Iraqi government undertook in writing the direct opposite: namely, to secure immediate unconditional and unrestricted access for the UNSCOM inspectors to all those sites in Iraq that UNSCOM wanted to inspect—including sites that Iraq declared to be "sensitive."

ROLF EKÉUS

Executive Chair of UNSCOM from 1991 to 1997 and Ambassador of Sweden to the United States

Daniel Byman replies:

My contention that Ambassador Ekéus agreed that UNSCOM would avoid certain "sensitive" sites relies on an account given by his successor, Richard Butler, who wrote in the September 1999 issue of *Talk* magazine that in the June 1996 meeting, "the two struck an agreement: Iraq would be permitted to severely restrict UNSCOM's access to any site the Iraqi government deemed 'sensitive' for national security reasons. This was in direct violation of a Security Council resolution stating that UNSCOM should be able to go anyplace, anytime, with whatever people it needed to do its job. The cave-in had begun."

STAY HOME

To the Editor:

Chester Crocker's thoughtful critique of my article, "Give War a Chance," warrants broader consideration, but here I can only try to respond to his main objection ("A Poor Case for Quitting," January/February 2000). While describing the paradoxical logic of the strategy presented in my article as "compelling," Crocker notes major exceptions to the proposition that wars themselves establish the preconditions for peace, if uninterrupted by outsiders—including the cases of Chechnya, Sudan, Kashmir, Sri Lanka, and Angola.

He is, of course, correct. In all those areas, warfare has persisted for decades, yet there is no peace in sight. But war can become its own remedy only by consuming and destroying the material and moral resources needed to keep fighting. It follows that the speed with which war destroys itself depends on its intensity and scale. In civil wars, the intensity of the fighting is usually low and the scale very limited, except for short (often seasonal) explosions of violence that, in most cases, are very localized. That leaves unaffected the wider environment, whose undestroyed resources can fuel war endlessly. As Crocker notes, Chechen resistance to the Russians began in the 1830s. But during the last 170 years there

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have been only a few months of truly intense large-scale fighting. Otherwise, the Russians would long ago have achieved an imperial peace through genocide or forced dispersal. Acting Russian President Vladimir Putin wants to achieve peace through all-out victory. But he is unlikely to do so because his war is not destroying the essential war-making resource of the Chechens—their warrior youth. With Russia's democracy sufficiently established to make genocide or mass deportation impossible, Putin's choices are restricted to an endless war inside Chechnya or the republic's isolation behind a well-guarded perimeter.

In Sudan, the fighting has been limited to some areas of the far south, and even there it has been mostly seasonal. Neither a war restricted by outside interference nor a war so limited in scope can create the preconditions for peace. Kashmir exhibits both the Chechen phenomenon of an imperial power unwilling to destroy or accommodate a rebellious nationality and the interrupted-war syndrome. None of the Indo-Pakistani wars persisted long enough to bring peace to Kashmir (in 1971, Pakistan was spared total defeat by American intervention). Now a nuclear stalemate has inaugurated a protracted cold war.

In Sri Lanka, ethnic war has continued for decades in the northeast, while foreign tourists continue to frequent tranquil beaches in the southwest. Had the intensity of the fighting in the Jaffna peninsula been replicated throughout the island, the war would have ended long ago. Angola has seen periods of intense fighting, mainly when the Luanda government had allies or mercenaries fighting its battles, but the war with the rebels has been mostly localized and desultory.

The logic of strategy is no more than a theoretical formulation of an almost physical process. Had World War II been fought in fits and starts and in secondary theaters far from Germany and Japan, it would still continue. That the paradoxical logic of strategy cannot exceed its limits is no excuse for the current practice of systematically sabotaging war's peace-making potential by outside interventions that are disinterested and therefore both arbitrary and usually inconclusive. Nor is it an excuse for the U.N. and nongovernmental organizations (NGOs) to provide refugee assistance by permanent encampment, instead of providing immediate humanitarian relief followed by a natural dispersion when quick repatriation is impossible. Such an intervention guarantees the perpetuation of refugee polities, the only possible ideology of which is revanchist. This, in turn, guarantees perpetual war—as in Rwanda's recent case. Again, had the U.N. and today's plague of irresponsible, self-seeking NGOs existed in Europe's past, the continent would contain no stable states but only vast camps of unreconciled refugees, still battling their ancient enemies.

In his letter to the editor, Sergio Vieira de Mello assures us that "the U.N. and other world bodies are gaining more experience in civil-war negotiating..." (January/February 2000). One hopes so, but one also wishes that these organizations ascended the learning curve by experimenting on mice instead of on entire nations. That the U.N. has often played a useful role by helping "combatants steer the path from war fatigue to peace

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negotiations" is perfectly true—but only in the Cold War years. The two global powers would alternate between stimulating third-party conflicts and suppressing them through negotiated agreements between themselves. Having done the heavy lifting by imposing their joint will on lesser powers at war, they would summon the U.N. Security Council to appoint mediators, monitor demarcation lines, observe elections, and provide purely symbolic observers and peacekeeping forces. But the real forces were the vast power of the Soviet Union and the United States and both countries' sporadic willingness to use this power to stop wars. The U.N.'s role, in contrast, was merely an optical illusion. Does Vieira de Mello really believe that the 1973 war between Egypt and Israel was stopped by the U.N. peacekeeping battalions that flew in to monitor the cease-fire? Or that Namibia's war was "steered to peace negotiations" by U.N. activities in that country rather than by superpower pressure on South Africa?

Once the Cold War ended, so did the global management assured by its protagonists. Meanwhile, the illusion that the U.N. could be effective by itself had taken hold. The puppeteers had left the scene, but a performance was still demanded by the deluded and promised by the puppets themselves. For example, one decisive cause of Bosnia's tragedy was that, when U.N. peacekeeping troops arrived, the Bosnian population really believed the troops would keep the peace, not realizing that without superpowers to impose their will on the warring parties, the U.N. would only stand by to watch their suffering—when it was not appeasing their tormentors, not to mention the smuggling and sexual commerce that were the chief activities of several national contingents.

Vieira de Mello states that I neglected to mention the wars in Namibia, El Salvador, and Mozambique, all of which ended through negotiations, rather than through conclusive wars. Really? True, there were negotiations in which the U.N. played a large role alongside others, such as Rome's Community of San Egidio and less-dubious NGOs. But as I noted, South Africa's war with the South West Africa People's Organisation was finally stopped by U.S. pressure, against the background of the Soviet-Cuban intervention in Angola. As for El Salvador, its guerrilla war did end through negotiation—but only after the insurgents were denied any chance of winning by the increasingly strong army and the Defensa Civil militia, conjoined with the diminishing hope of Sandinista-Cuban-Soviet assistance. Only then did the insurgents want to try the ballot box instead of the gun, but they were defeated electorally as well.

As for Mozambique, the government's rival—the Mozambique National Resistance (MNR)—was born as a Rhodesian covert operation and lived on as a South African proxy. Once the MNR's creator had disappeared and its replacement patron cut off further support, the Mozambique Liberation Front (Frelimo) won the war. Only then did undoubtedly useful mediation play its small role; so that too was a war ended by victory. The rest of Vieira de Mello's contentions can be answered by my response to Crocker, especially in the case of Sierra Leone, whose own war was inconclusive because, amid many atrocities against civilians, it was hardly fought by

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the supposed combatants. Outside multilateral intervention was notably ineffectual.

Vieira de Mello notes that "U.N. officials in such places as eastern Angola, northern Sierra Leone, and the eastern areas of the Democratic Republic of Congo face the fact that rebels fight not for victory but because fighting itself offers power and wealth." U.N. officials may "face the fact" but can do nothing about it, other than to legitimize grotesque entities that call themselves states because a U.N. seat has their name on it. Those officials are not earning their keep, because they neither kill rebels nor help them win on the sound calculation that war itself is more savage than the most savage of belligerents.

EDWARD N. LUTTWAK
Senior Fellow, Center for Strategic and International Studies

FLOATING ALONG

To the Editor:

As Zanny Minton Beddoes observes ("From EMU to AMU? The Case for Regional Currencies," July/August 1999), recent "financial turmoil has shattered the semi-fixed exchange rate regimes that much of the developing world once favored." Absent extensive capital controls, the only viable regimes appear to be a (managed) float or a hard peg to one or another of the world's leading currencies. Ruling out capital controls, Beddoes argues for the hard-peg option on the ground that it provides a developing country with readier access to international capital flows.

Recent experience with massive bouts of lending to Latin America, East Asia, and Russia—especially by consortia of international commercial banks—casts doubt on the prodevelopment virtues of unfettered international capital flows. As repeated debt moratoriums and forced restructurings demonstrate, diligence was altogether lacking in many instances. Lenders were too eager to lend and borrowers too eager to borrow. Leveraged speculation in real estate and common stocks and the expansion of manufacturing capacity in sectors with an incipient oversupply led to unsustainable bubbles. The consequences—for government leaders, for domestic borrowers, and for families that had to live through subsequent severe recessions—were painful.

Despite this record, I share Beddoes' belief that ready access to foreign capital assists development over the long haul. But is it clear that a floating exchange rate inhibits such access?

Canada has had a floating currency for many years now, yet it has hardly suffered from a dearth of foreign capital. Mexico has a floating currency but clearly enjoys (and sometimes suffers from) substantial capital inflows from a wide range of foreign creditors and investors.

Although a floating currency imposes an exchange-rate risk on either borrower or lender, this risk can usually be hedged through the forward market or other devices. Most important, a floating currency allows a country to tailor monetary policy to particular circumstances.

Beddoes predicts that "By 2030 ... the euro will be used from Brest to Bucharest, and the dollar from Alaska to Argentina—perhaps even in Asia." She may be right. But achieving the dollar part of her forecast will require some doing. Of the 16 largest countries in the western hemisphere (other than the United States), only one—

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Argentina—currently pegs its currency rigidly to the dollar.

Argentina has probably benefited from the dollar-peso peg. But it is a special case. With a history of profligate fiscal and monetary policies, it needed—and perhaps still needs—a currency straitjacket. Countries not handicapped with such an extreme inflationary legacy would do better under a managed float.

HENRY N. GOLDSTEIN
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IF IT WORKS, DON'T FIX IT

To the Editor:

Taiwanese President Lee Teng-hui effectively explains why political, economic, and demographic changes in Taiwan over the past 20 years have irrevocably altered the equation across the Taiwan Strait ("Understanding Taiwan," November/December 1999). This has made it increasingly untenable for China and the United States to continue using an old fiction—that Taiwan is not an independent entity—as the linchpin of their approach to the issue. Lee advocates a new framework, stating that "perceptions underpinning policies involving Taiwan and Beijing must be more firmly grounded in reality than in ideological wishful thinking."

Unfortunately, the remedy to this problem is not as simple as Lee would have it, for several reasons.

First, China will not allow its strategic preferences to be ignored. Because Beijing has both leverage and the will to use it, it must be accommodated—unless Taipei and its international supporters are prepared to risk a military confrontation.

Second, there are limits on what Taiwan can expect to do internationally. Lee cites Taiwan's "inherent right to actual and legitimate representation in international organizations," but this right is constrained by the fact that Taiwan is not recognized by most governments as an independent state or as an equal to mainland China. Taiwan's assertion that it is a state and deserves this status does not make it so.

Third, the U.S. government does not endorse Taiwan's claims of statehood and cannot alter its current policy without endangering its own relationship with Beijing—which involves many issues other than Taiwan. For better or worse, Washington has made certain pledges to Beijing—including its commitment to the "one China" principle—regarding the limits of U.S. support to Taiwan. As distasteful as those commitments may now seem, Washington cannot unilaterally withdraw from them without risking serious consequences, such as war.

Nonetheless, even though the 20-year-old fiction at the center of the Taiwan issue has worn thin, it remains crucial to maintaining peace in the region. Neither that myth nor the "one China" principle can be discarded until something else is devised—and agreed to by all parties—to take its place.

For a new framework to be achieved, all three parties will have to be creative and flexible. Beijing should stop denying the obvious reality of Taiwan's separation from the mainland. It should tone down its saber-rattling and voice its commitment to eventual reunification on mutually agreeable terms. In short, Beijing could eliminate the reasons that Taipei is reluctant to resume substantive talks. For

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its part, Taipei should stop obscuring its own position on "one China." Instead, Taipei should reaffirm its commitment to "one China" as a present, not a future, concept—something it was fully prepared to accept until very recently.

The challenge for Washington is to devise a new approach that neither denies Taiwan its due nor sacrifices U.S.-China relations. This will require it to recognize the limits on what Taiwan should be awarded. Both Beijing and Taipei must know that there can and should be limits on U.S. support of Taiwan, even in arms sales. At the same time, the United States should not eliminate the strategic ambiguity of its commitment to Taiwan's defense—an ambiguity that, despite its flaws, still serves its purpose better than the alternatives. Washington can remind Beijing that it would, as the Taiwan Relations Act says, view any Chinese use of force against Taiwan as being "of grave concern to the United States."

In the meantime, the status quo remains the best-case scenario. All three parties—and Lee in particular—should avoid taking steps that challenge or undermine it.

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The Power of Human Rights

International Norms and Domestic Change

Thomas Risse, Stephen C. Ropp, *and* ***Kathryn Sikkink,*** *Editors*

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Contributors: *Thomas Risse, Kathryn Sikkink, Hans Peter Schmitz, David Black, Sieglinde Gränzer, Anja Jetschke, Stephen C. Ropp, Daniel C. Thomas*

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Alexander Wendt

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